



Overview & Outlook for the P&C Insurance Industry *Focus on Texas Markets*

Insurance Council of Texas

Mid-Year P&C Insurance Symposium

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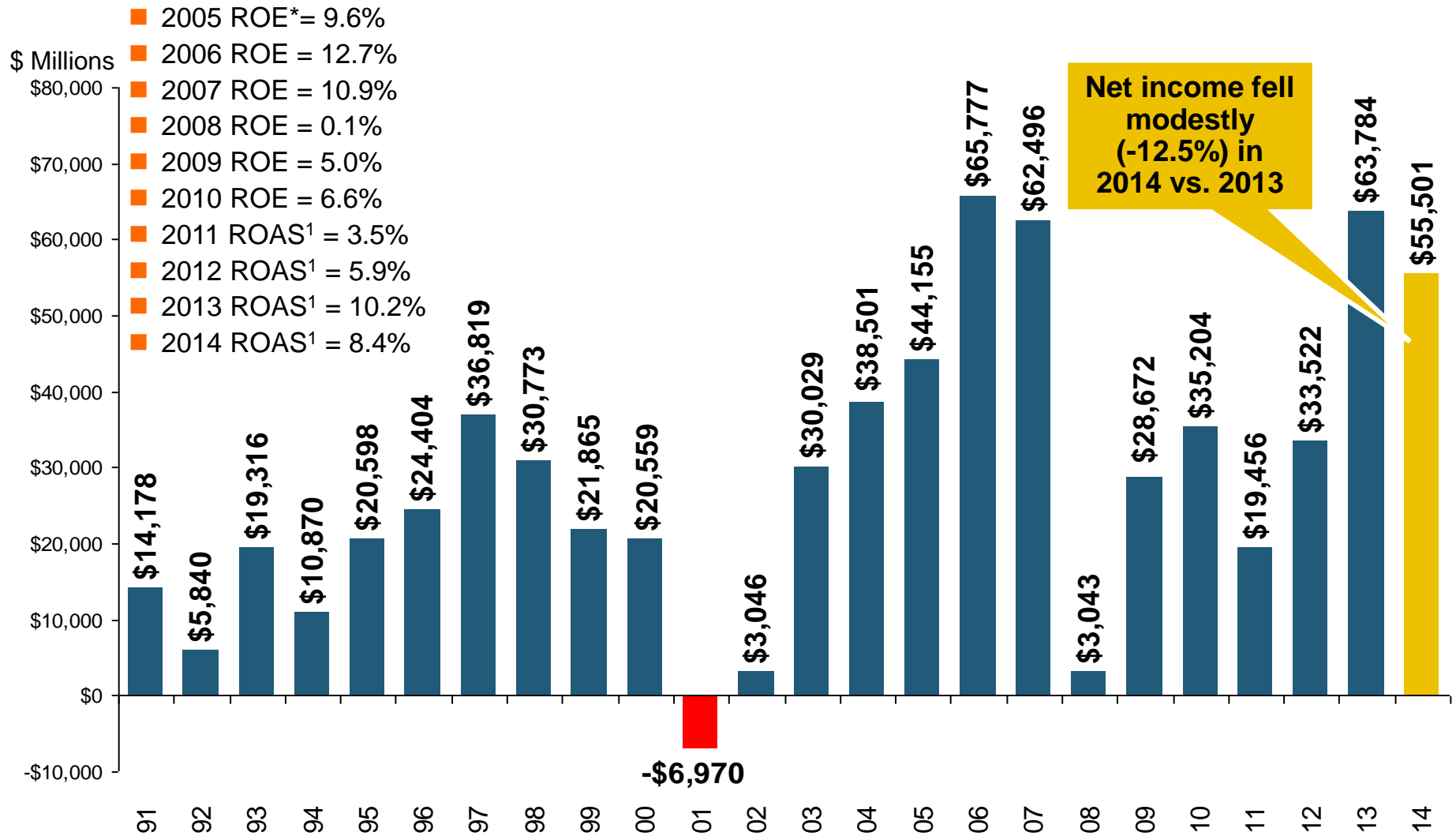
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Insurance Industry: *Financial Update & Outlook*

2014 Was a Reasonably Good Year
2015: A Repeat of 2014?

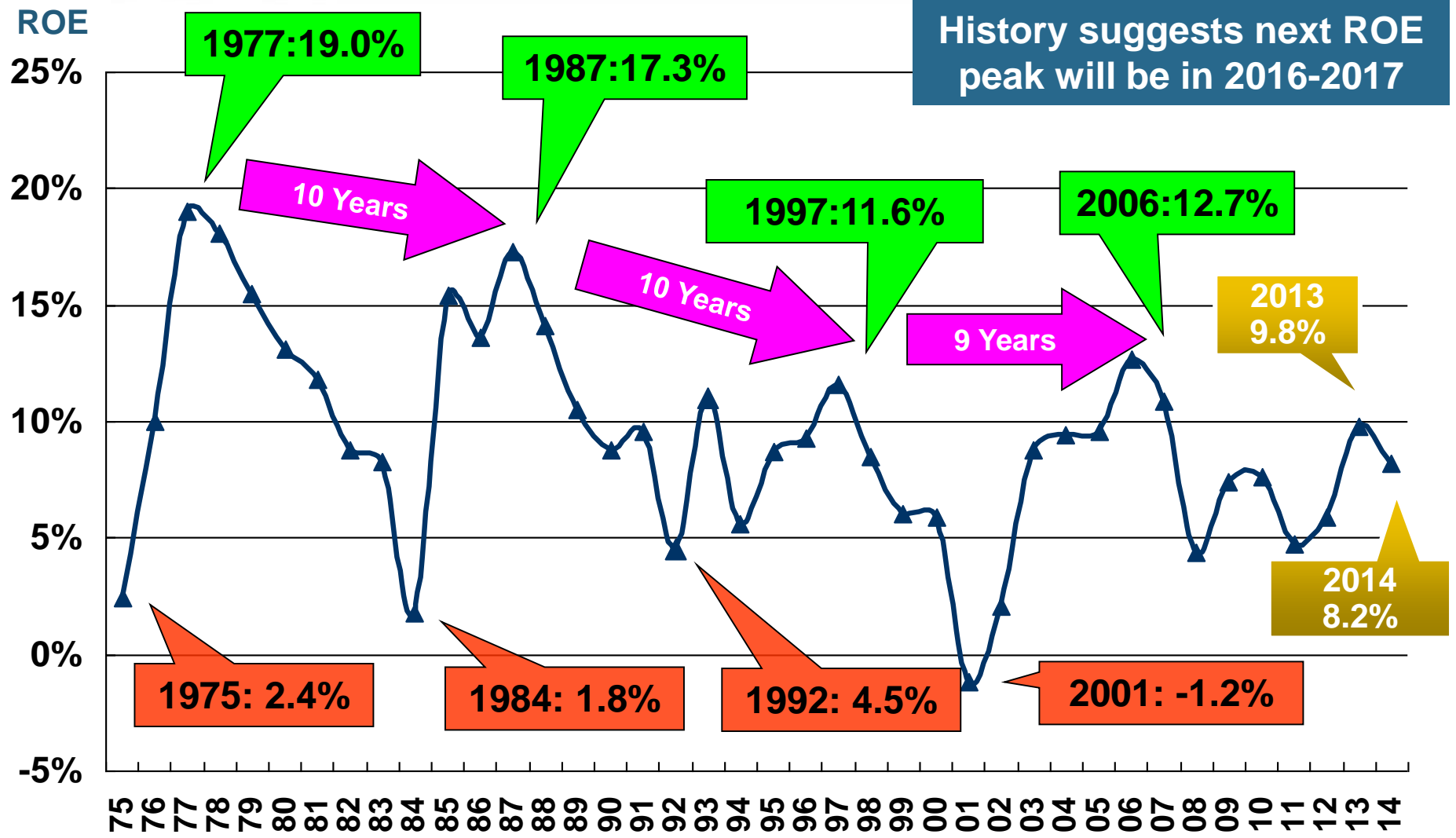
P/C Industry Net Income After Taxes 1991–2014



*ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

Sources: A.M. Best, ISO; Insurance Information Institute

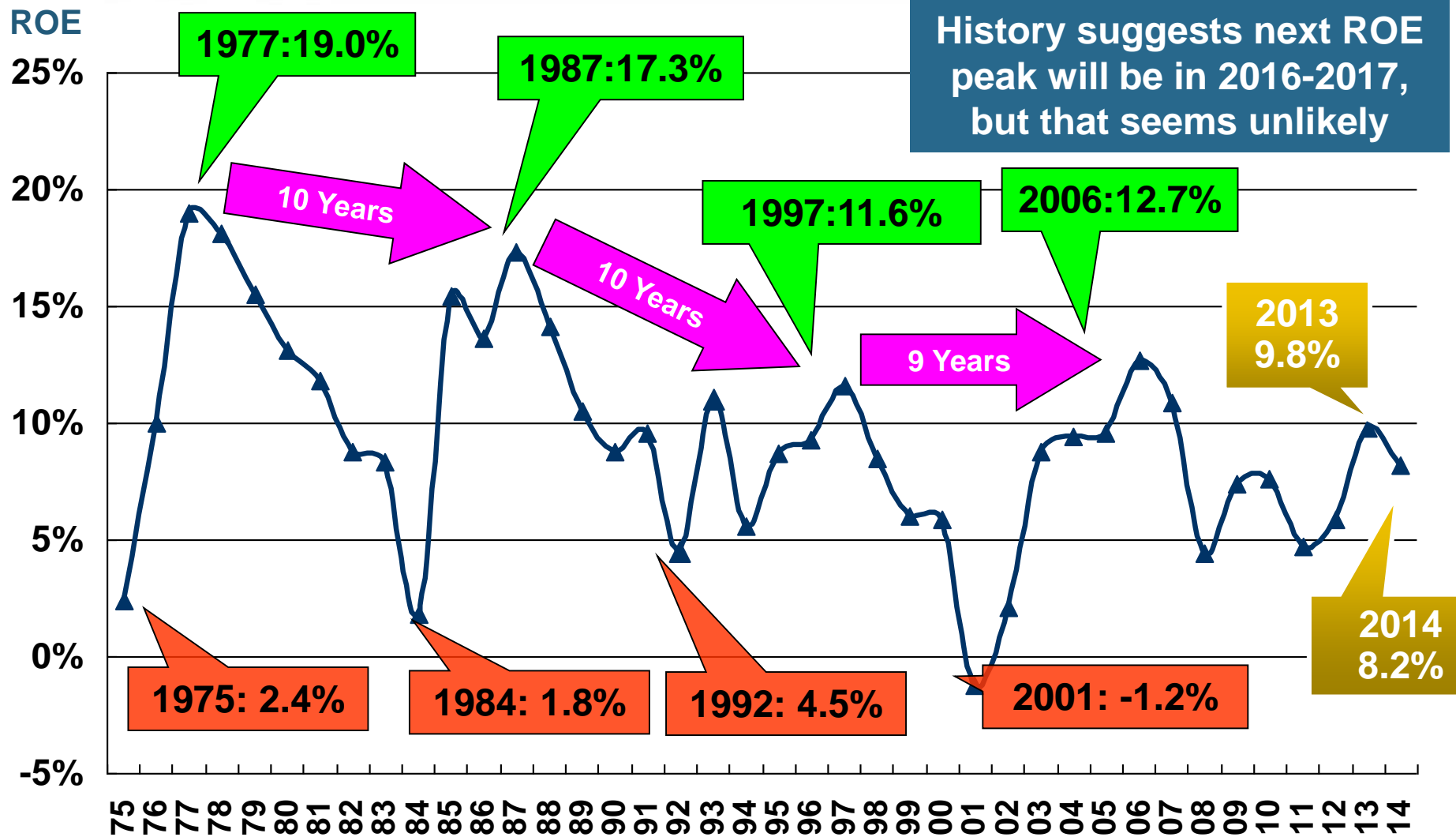
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014*



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

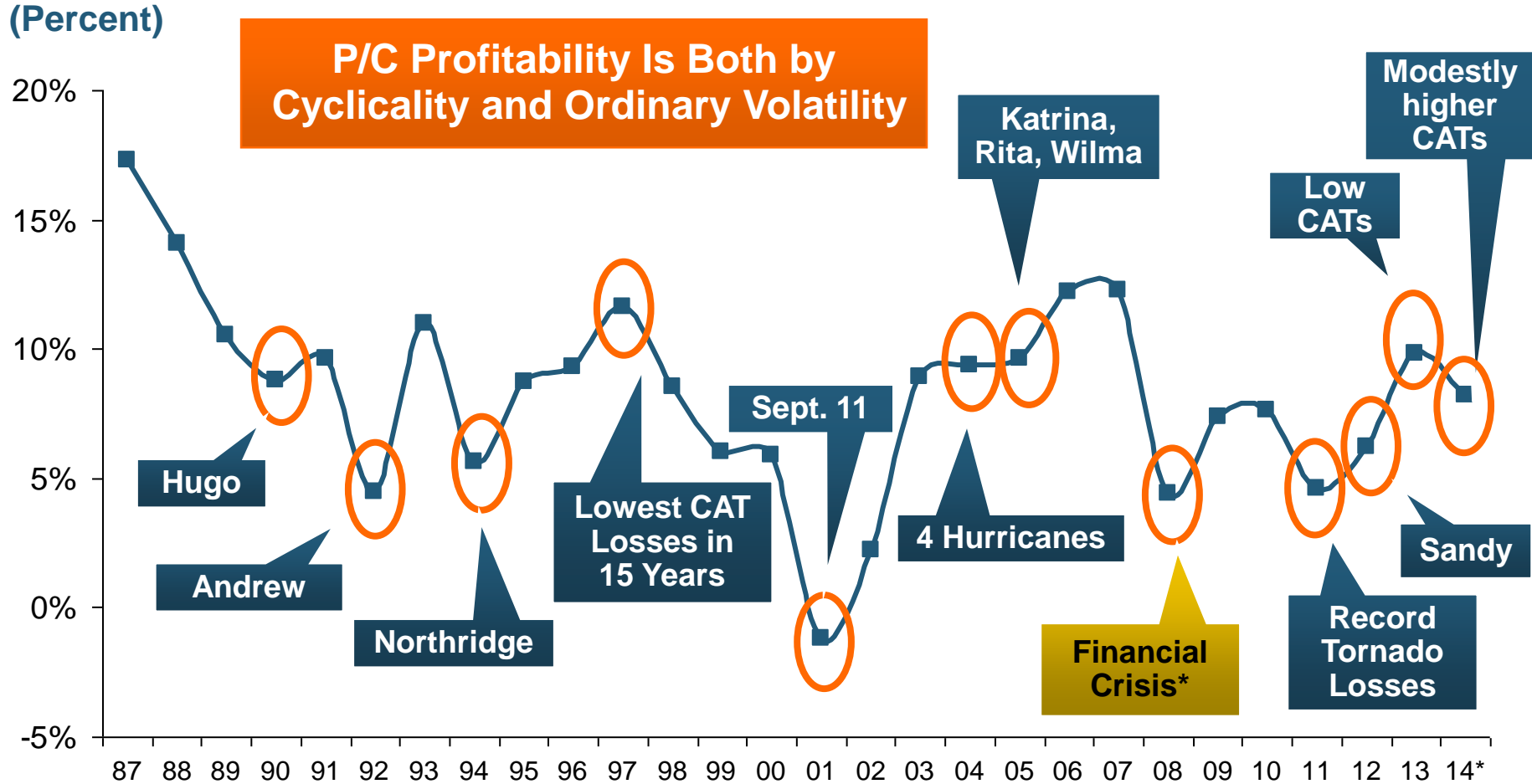
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2016F



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

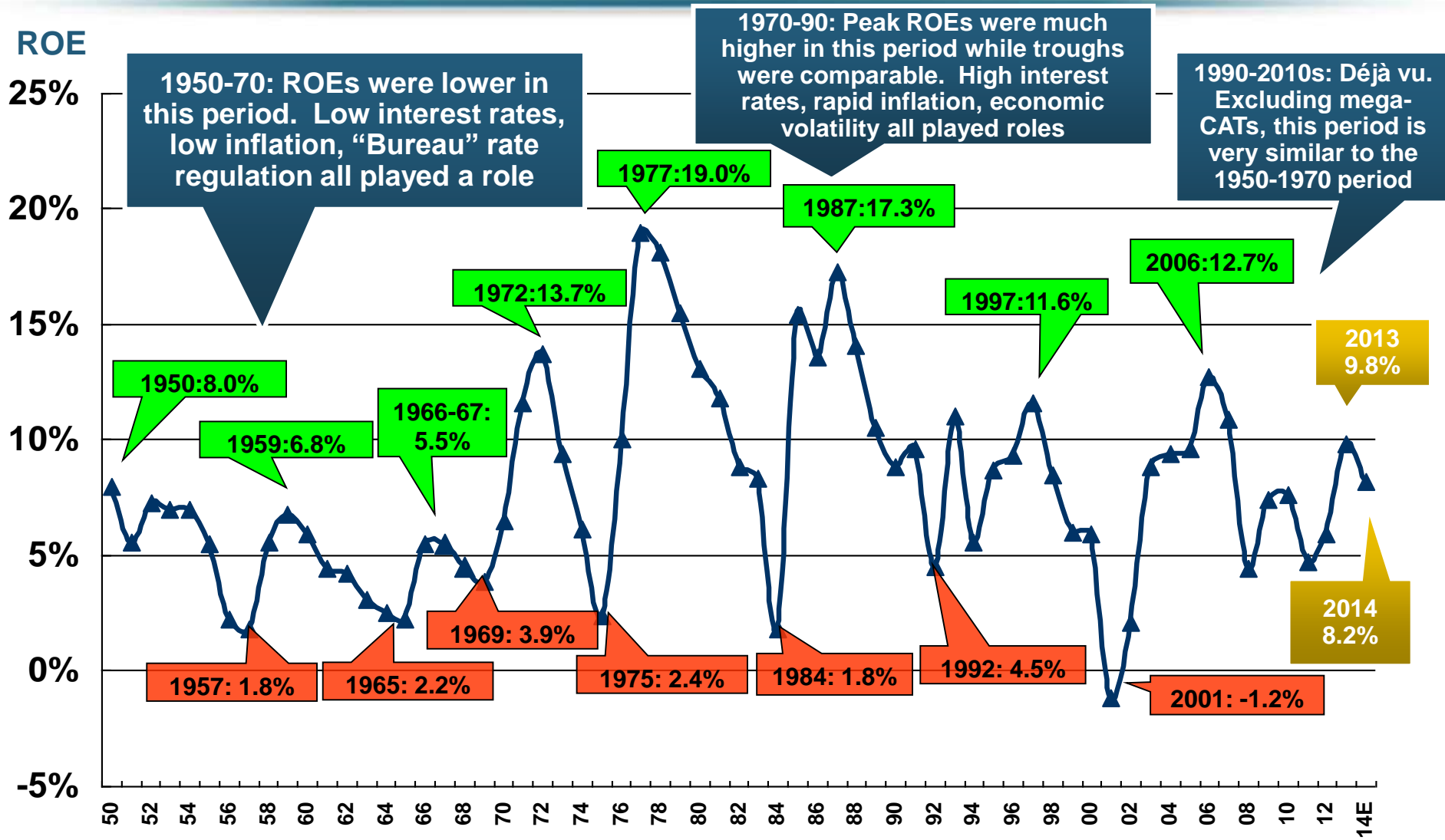
Source: Insurance Information Institute; NAIC, ISO, A.M. Best, Conning

ROE: Property/Casualty Insurance by Major Event, 1987–2014



* Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

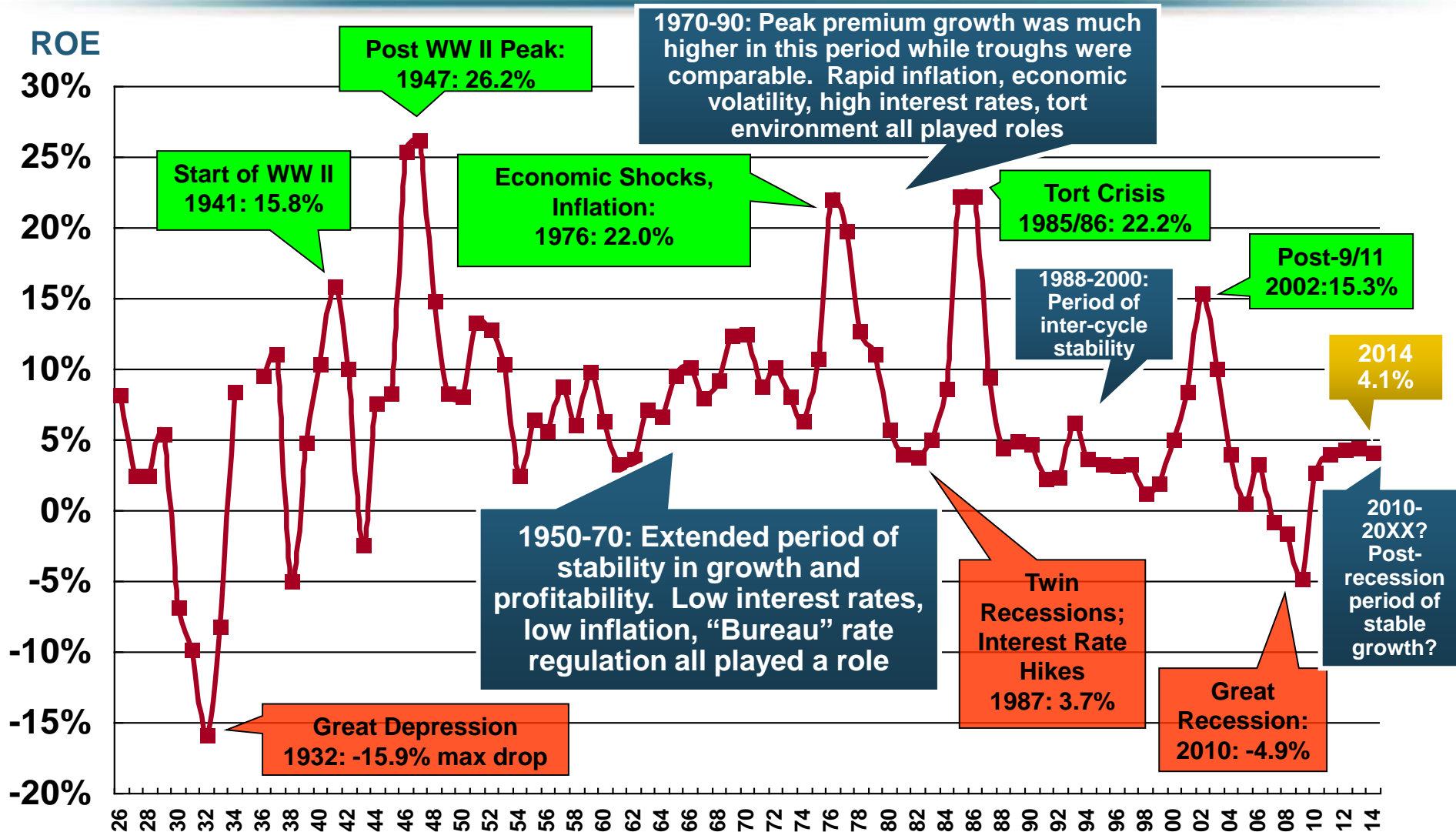
Back to the Future: Profitability Peaks & Troughs in the P/C Insurance Industry, 1950 – 2014*



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

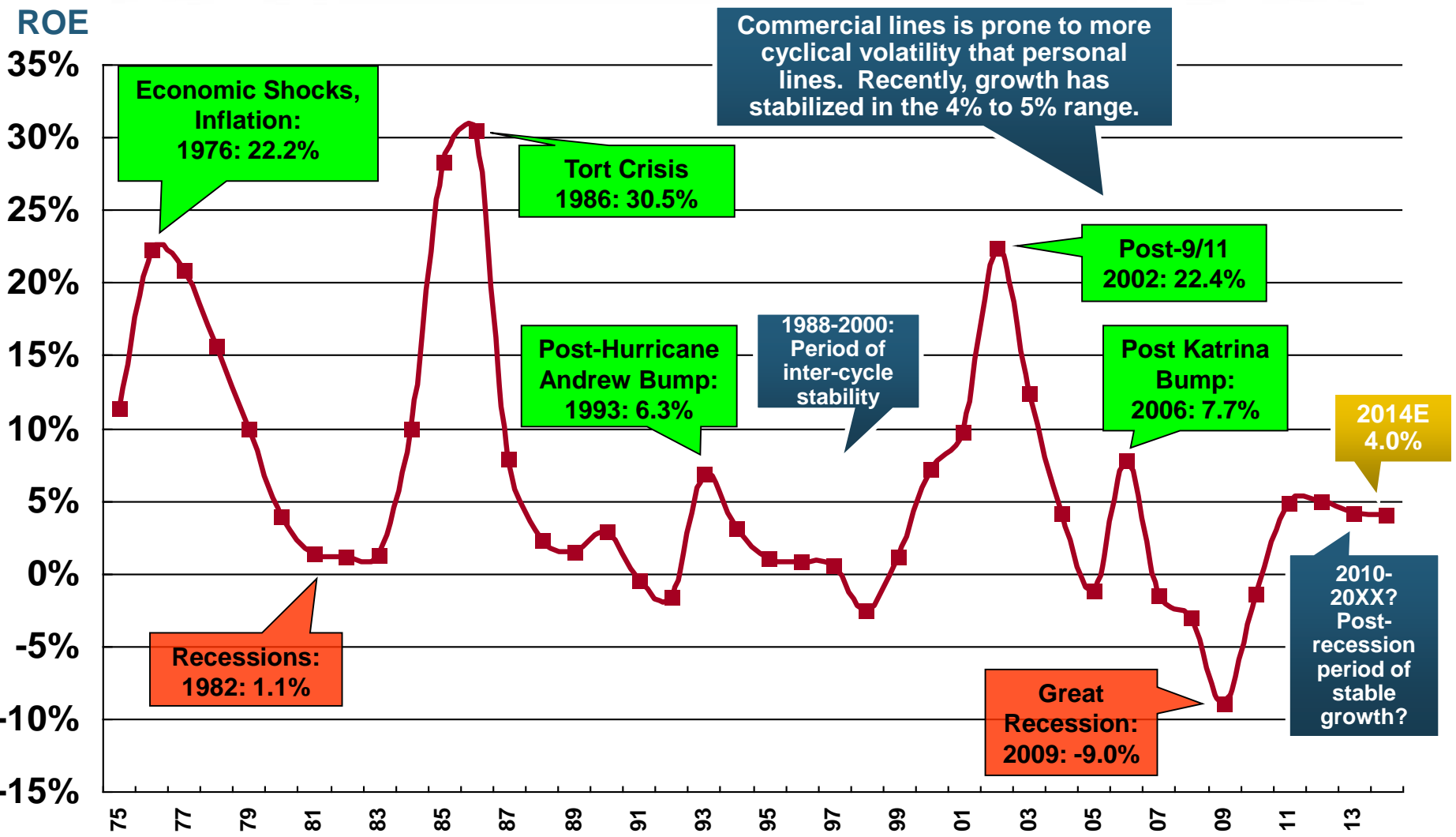
NPW Premium Growth: Peaks & Troughs in the P/C Insurance Industry, 1926 – 2014



Note: Data through 1934 are based on stock companies only. Data include state funds beginning in 1998.

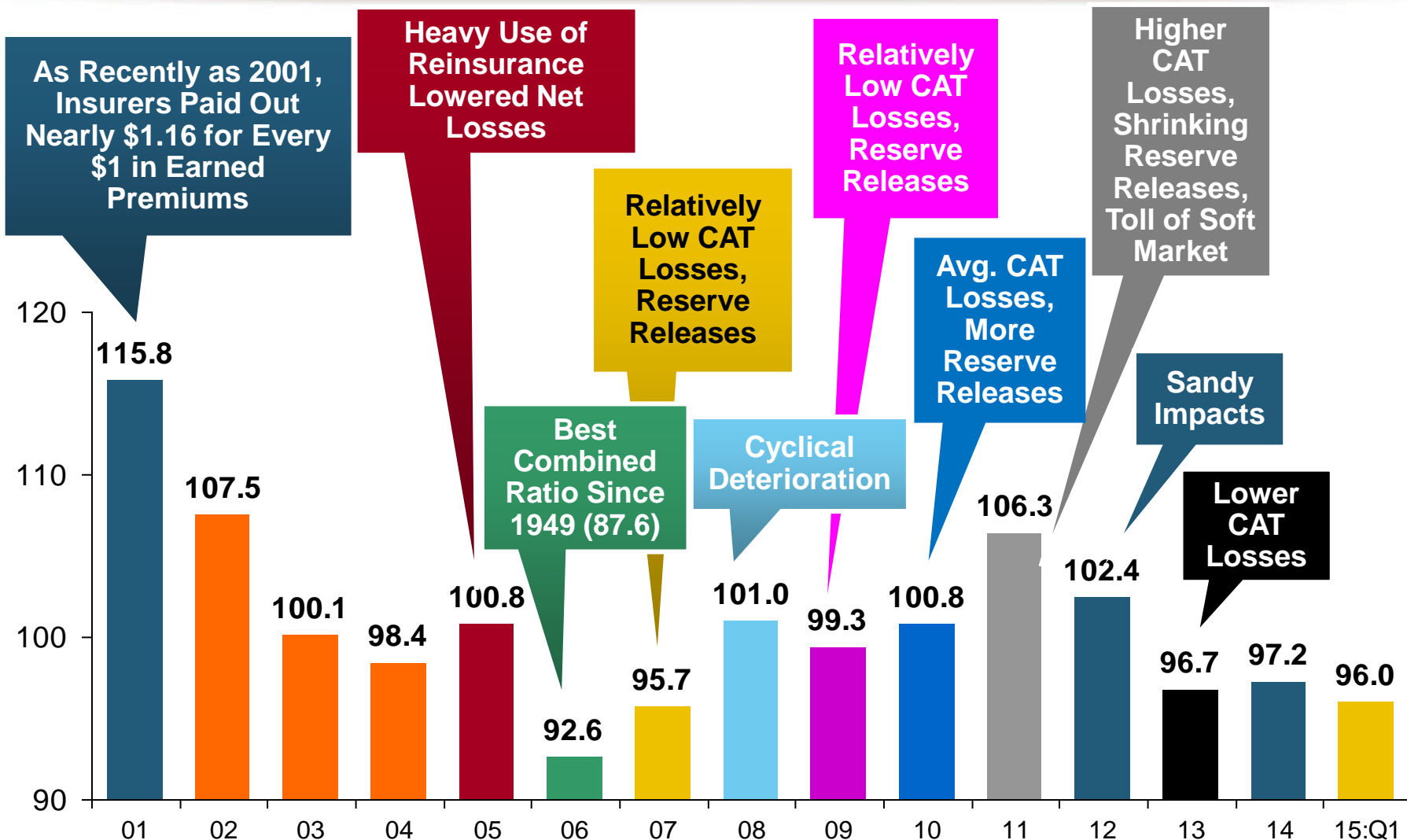
Source: A.M. Best; Insurance Information Institute.

Commercial Lines NPW Premium Growth: 1975 – 2014E



Note: Data include state funds beginning in 1998.
 Source: A.M. Best; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001–2015:Q1*



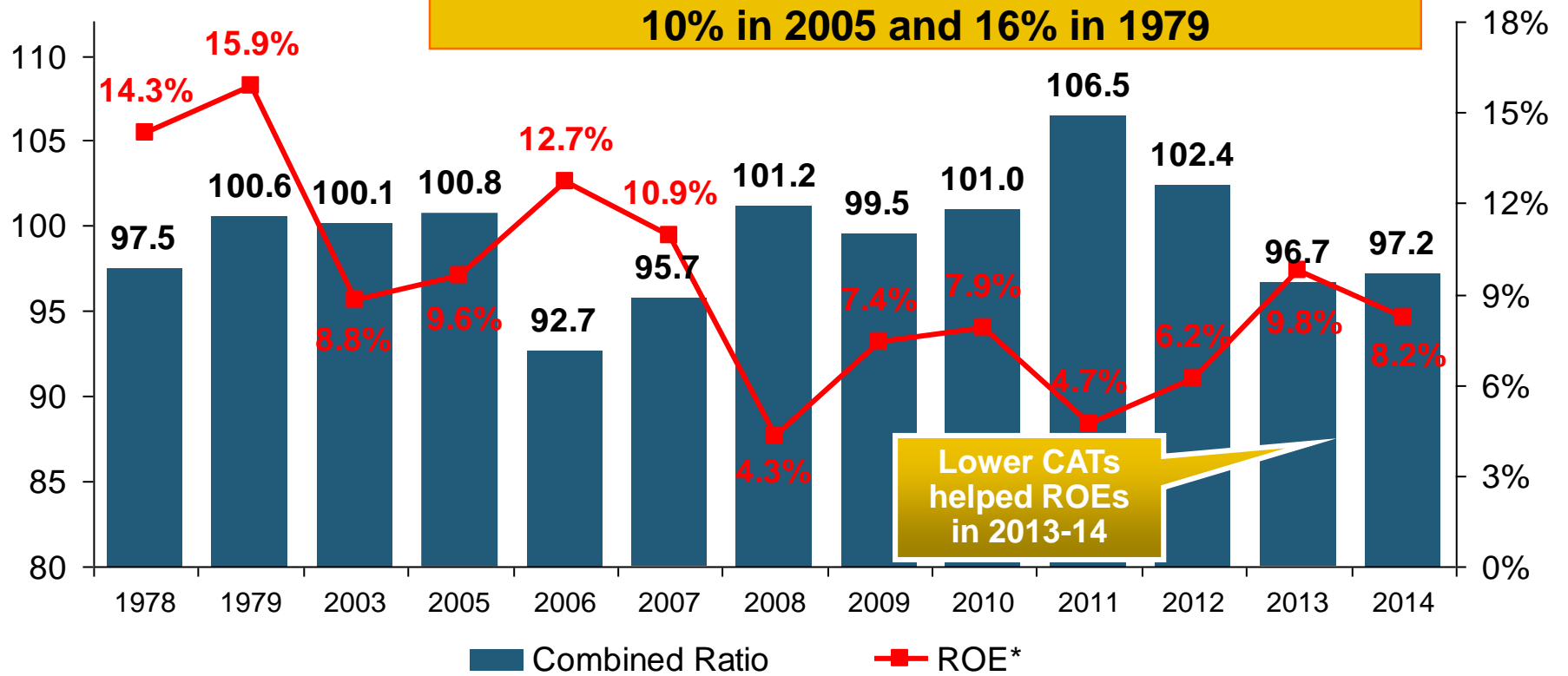
* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.

Sources: A.M. Best, ISO.

A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs

Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~7.0% in 2012/13, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

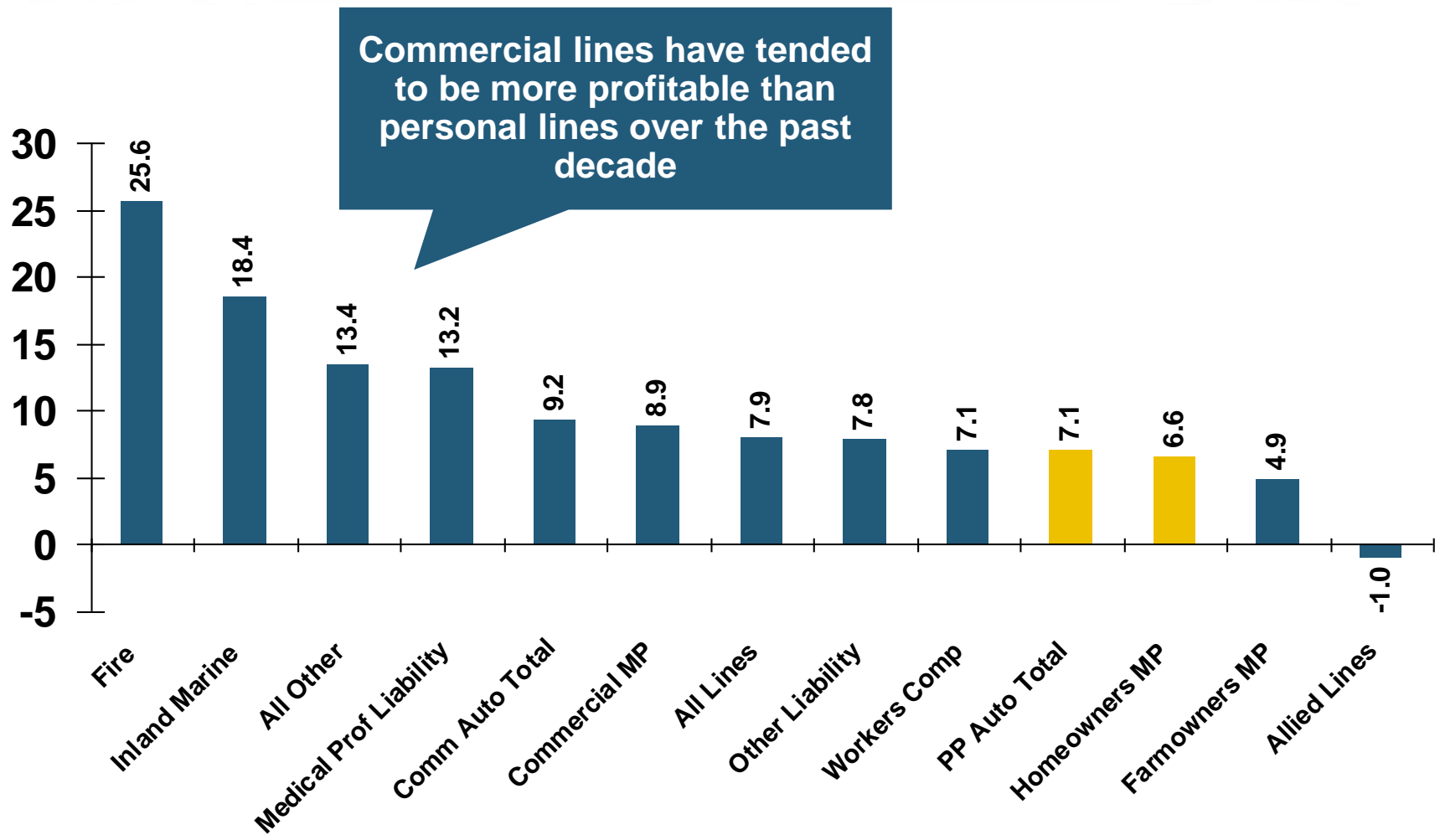


Lower CATs helped ROEs in 2013-14

Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

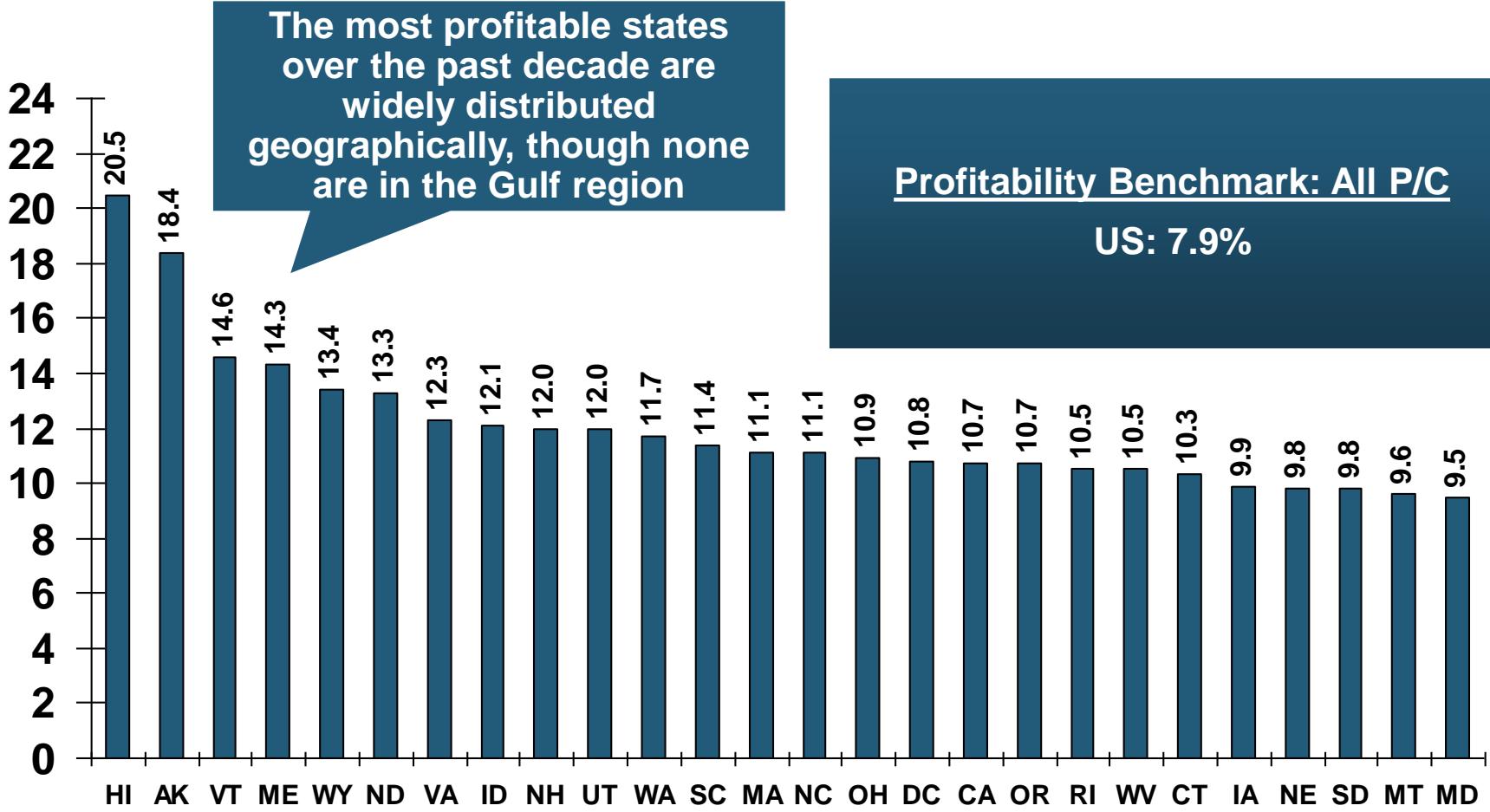
* 2008 -2014 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2014 combined ratio including M&FG insurers is 97.0; 2013 = 96.1; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.
 Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.

Return on Net Worth (RNW) All Lines: 2004-2013 Average



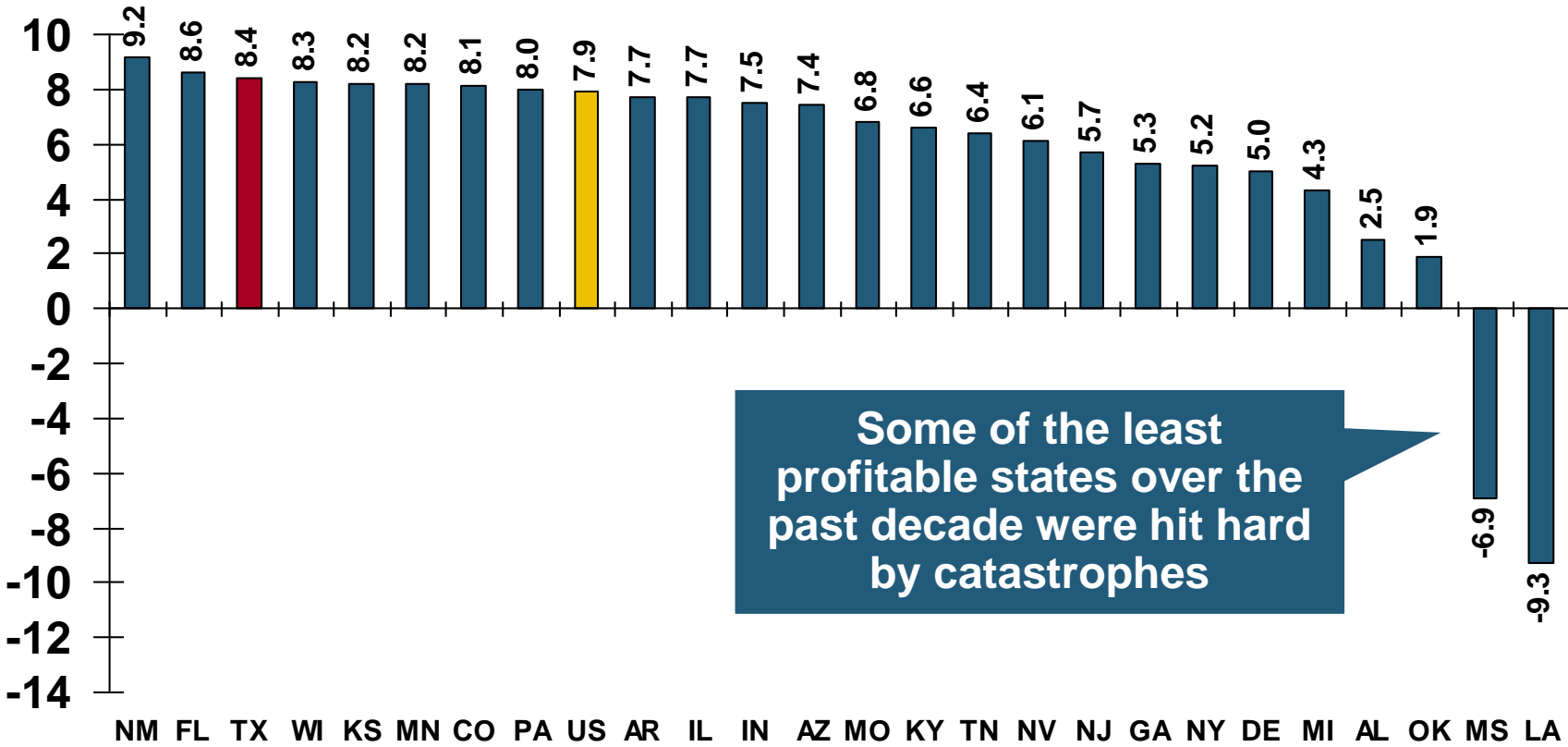
Source: NAIC; Insurance Information Institute.

RNW All Lines by State, 2004-2013 Average: Highest 25 States



Source: NAIC; Insurance Information Institute.

RNW All Lines by State, 2004-2013 Average: Lowest 25 States



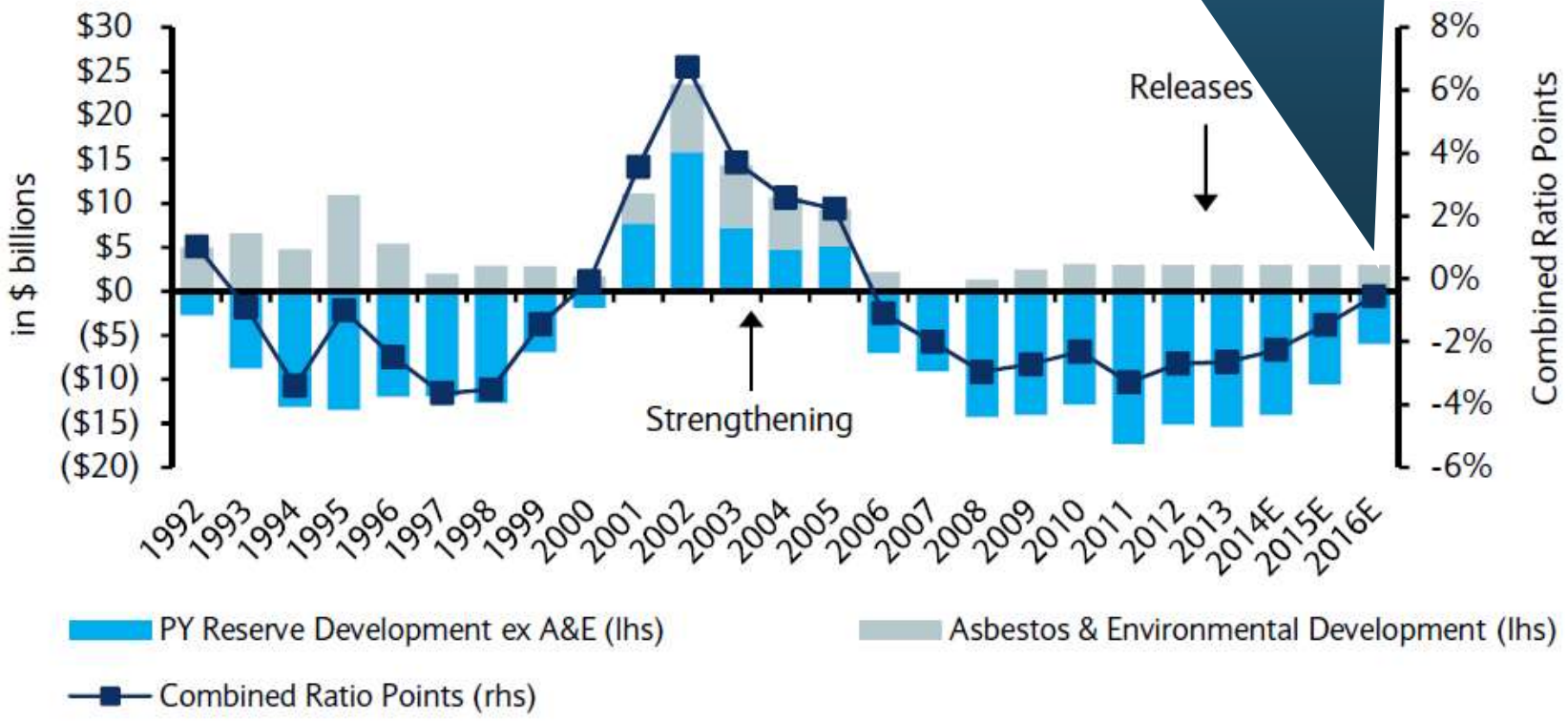
Some of the least profitable states over the past decade were hit hard by catastrophes

P/C Insurance Loss Reserve Development 1992 – 2016E*



Reserve Change

Reserve releases are expected to gradually taper off, but will continue to benefit the bottom line and combined ratio through at least 2016



Source: A.M. Best; Barclays research for estimates.



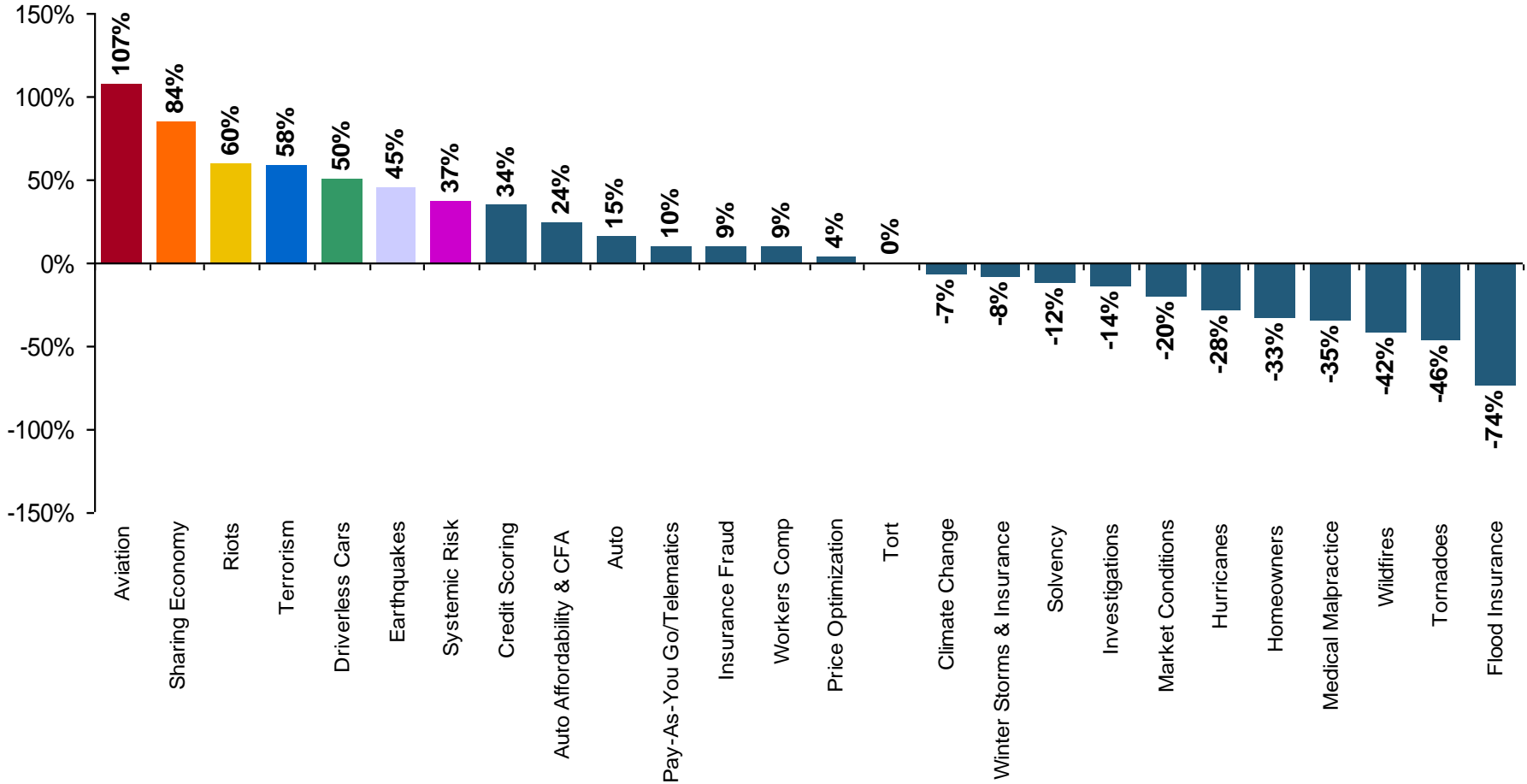
First-Half 2015 Insurance Industry Media Trends

**Diverse Array of Issues Attracted
Media and Public Policymaker
Interest in 2015**

***Published Stories About Insurance
Fell by 9% in First Half 2015***

I.I.I. Media Index, P/C, First Half 2015 vs First Half 2014 (1)

Percent increase/decrease from previous year



(1) Based on a search of Lexis/Nexis.

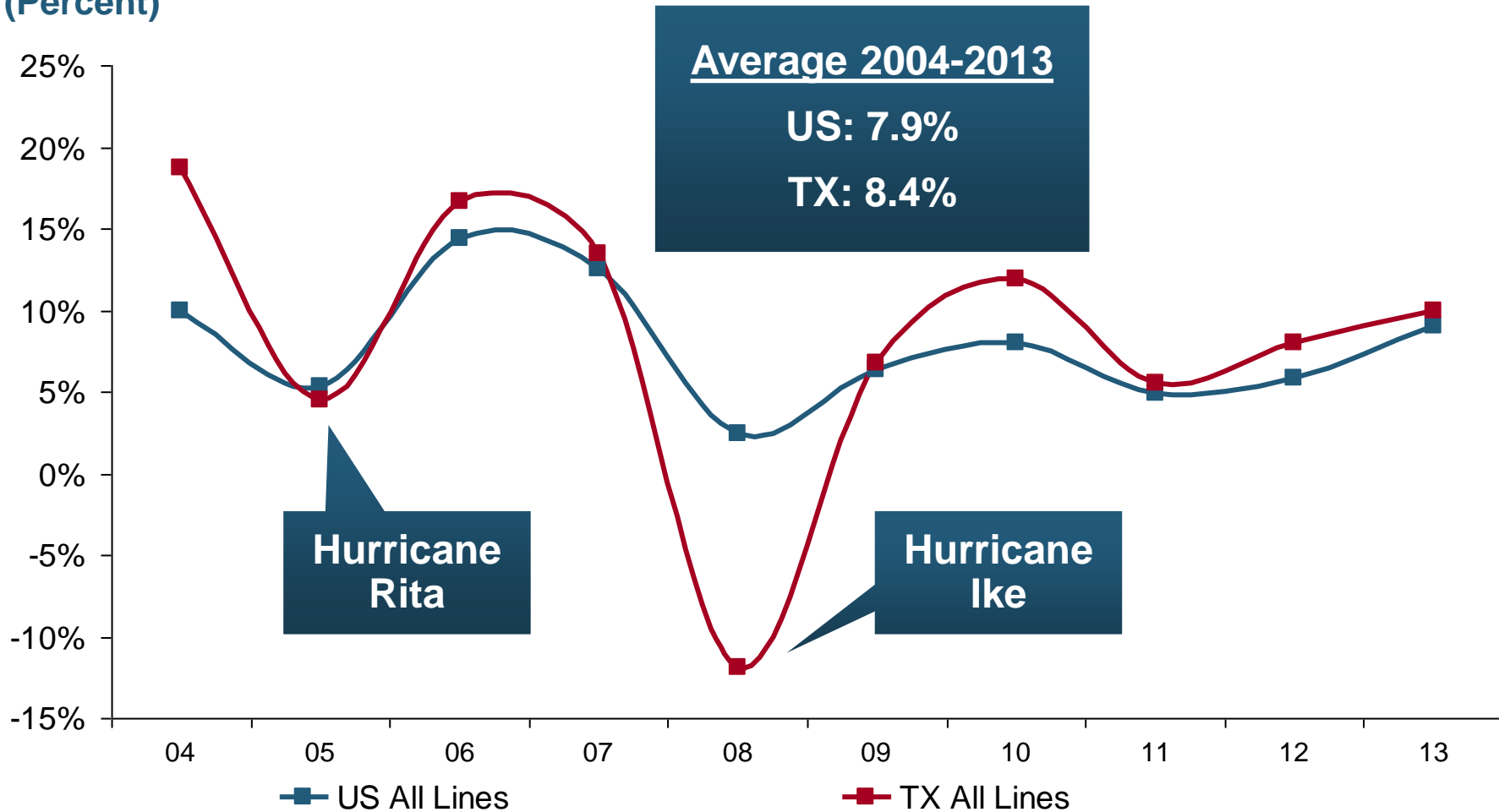


Profitability and Growth in Texas P/C Insurance Markets

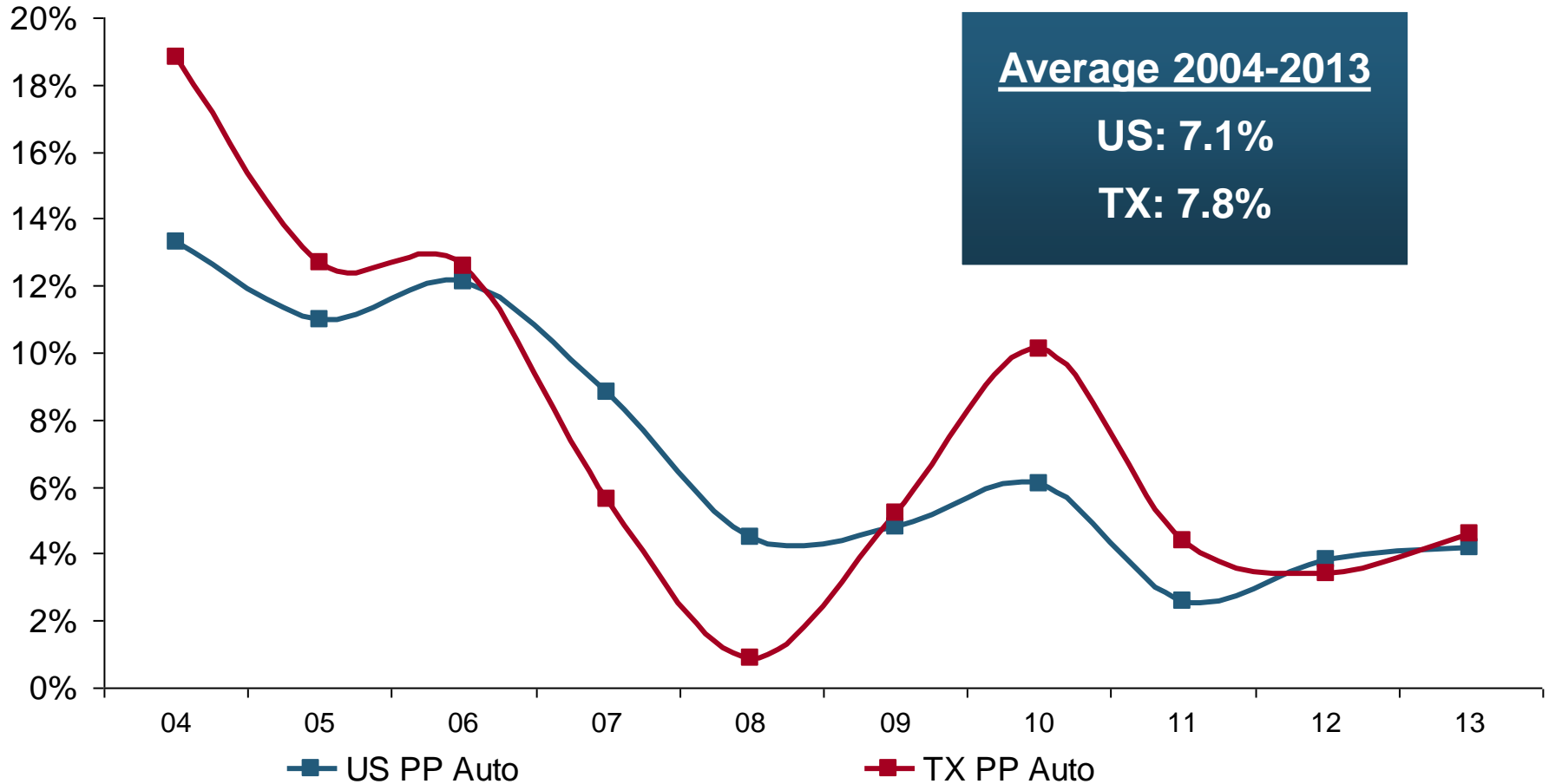
Analysis by Line and Nearby State Comparisons

RNW All Lines: TX vs. U.S., 2004-2013

(Percent)

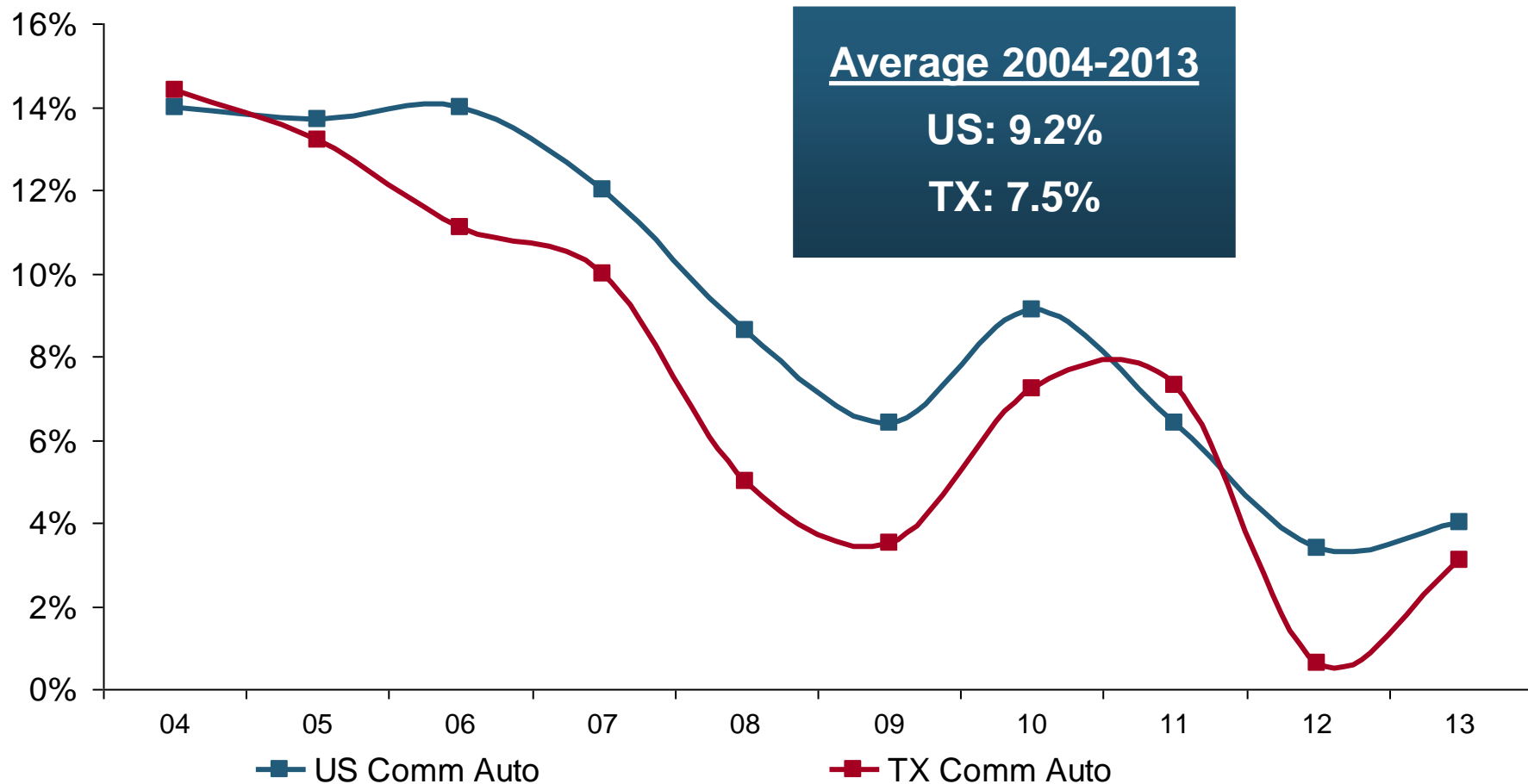


RNW PP Auto: TX vs. U.S., 2004-2013



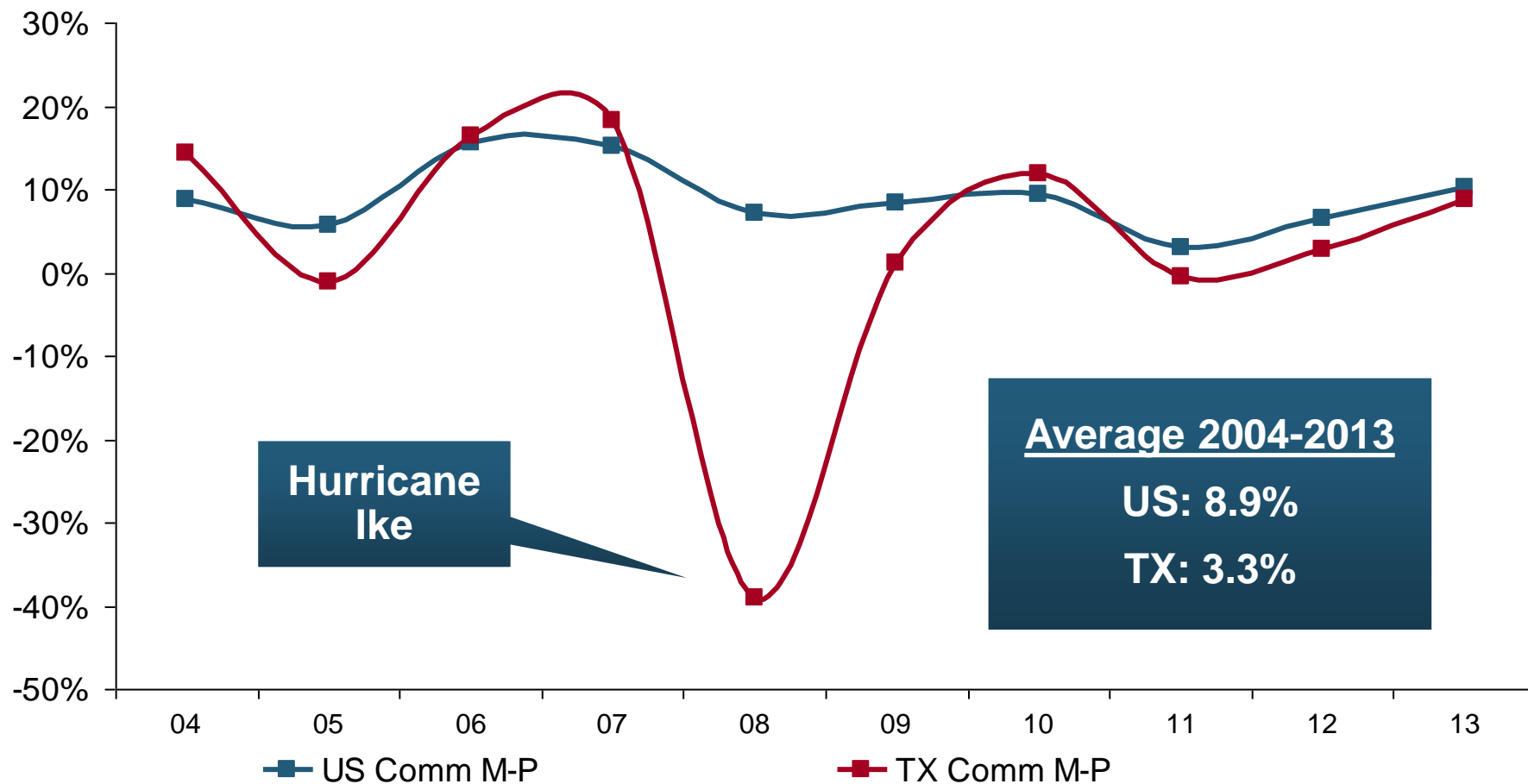
RNW Comm. Auto: TX vs. U.S., 2004-2013

(Percent)



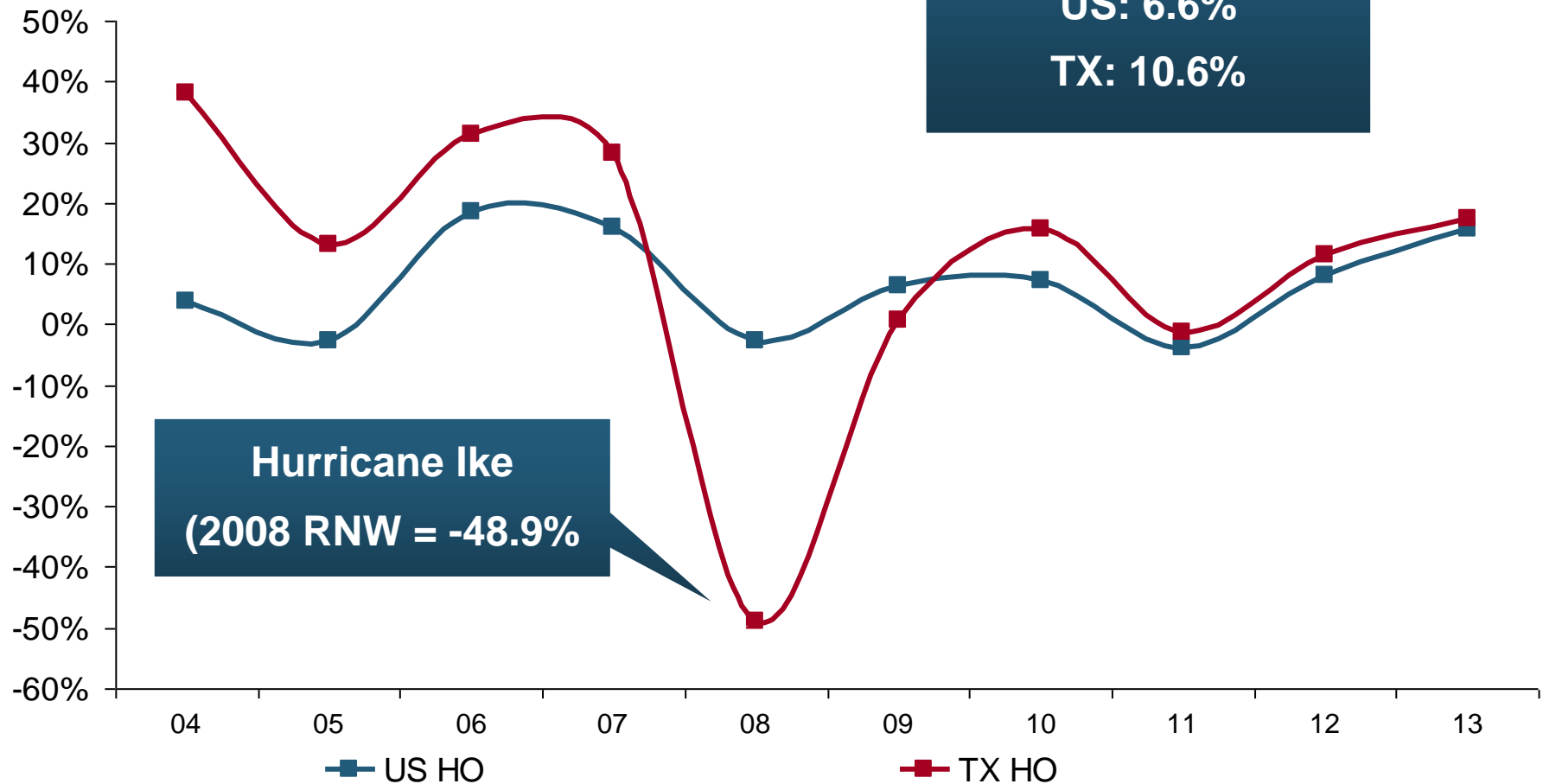
RNW Comm. Multi-Peril: TX vs. U.S., 2004-2013

(Percent)



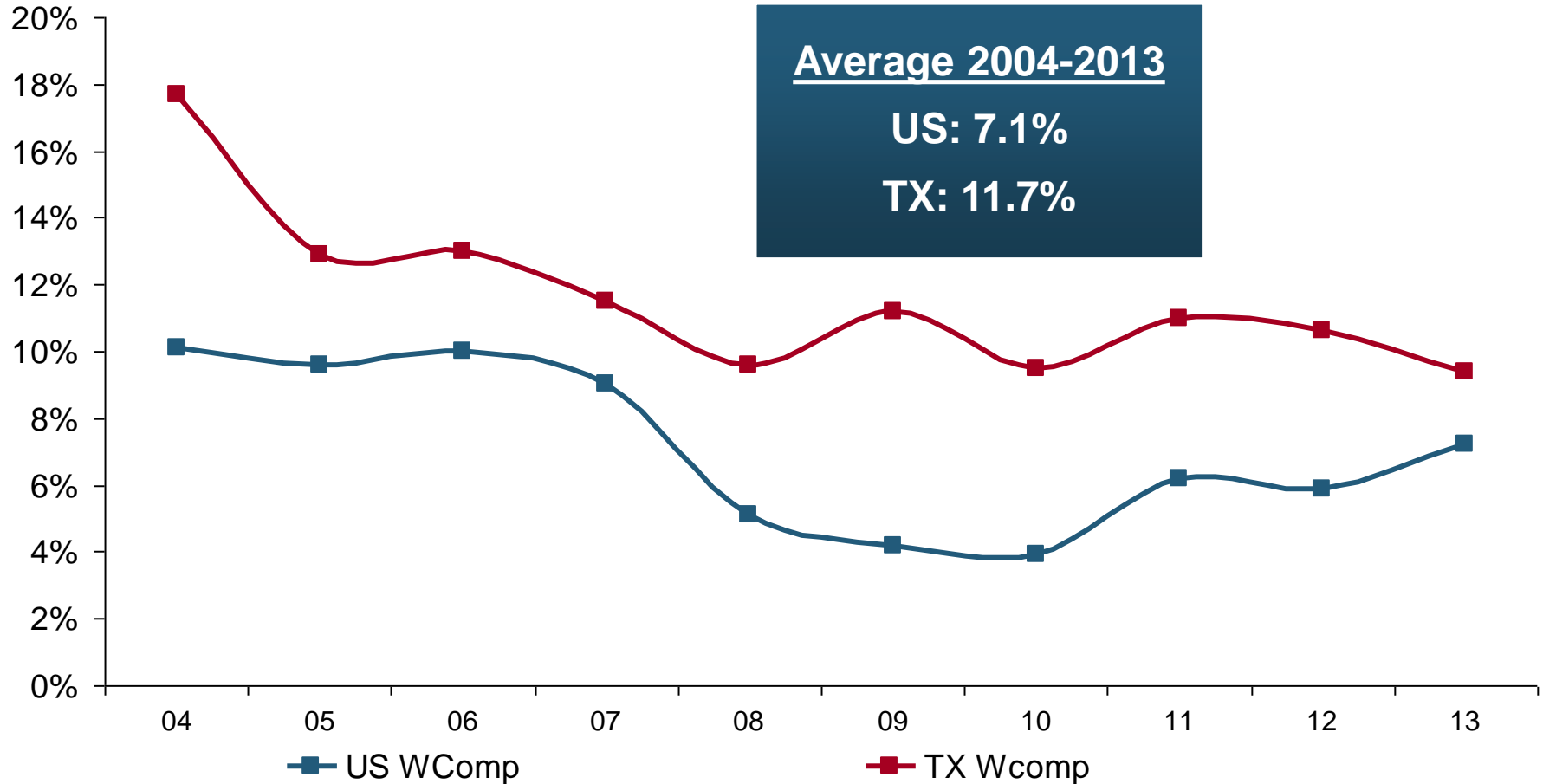
RNW Homeowners: TX vs. U.S., 2004-2013

(Percent)

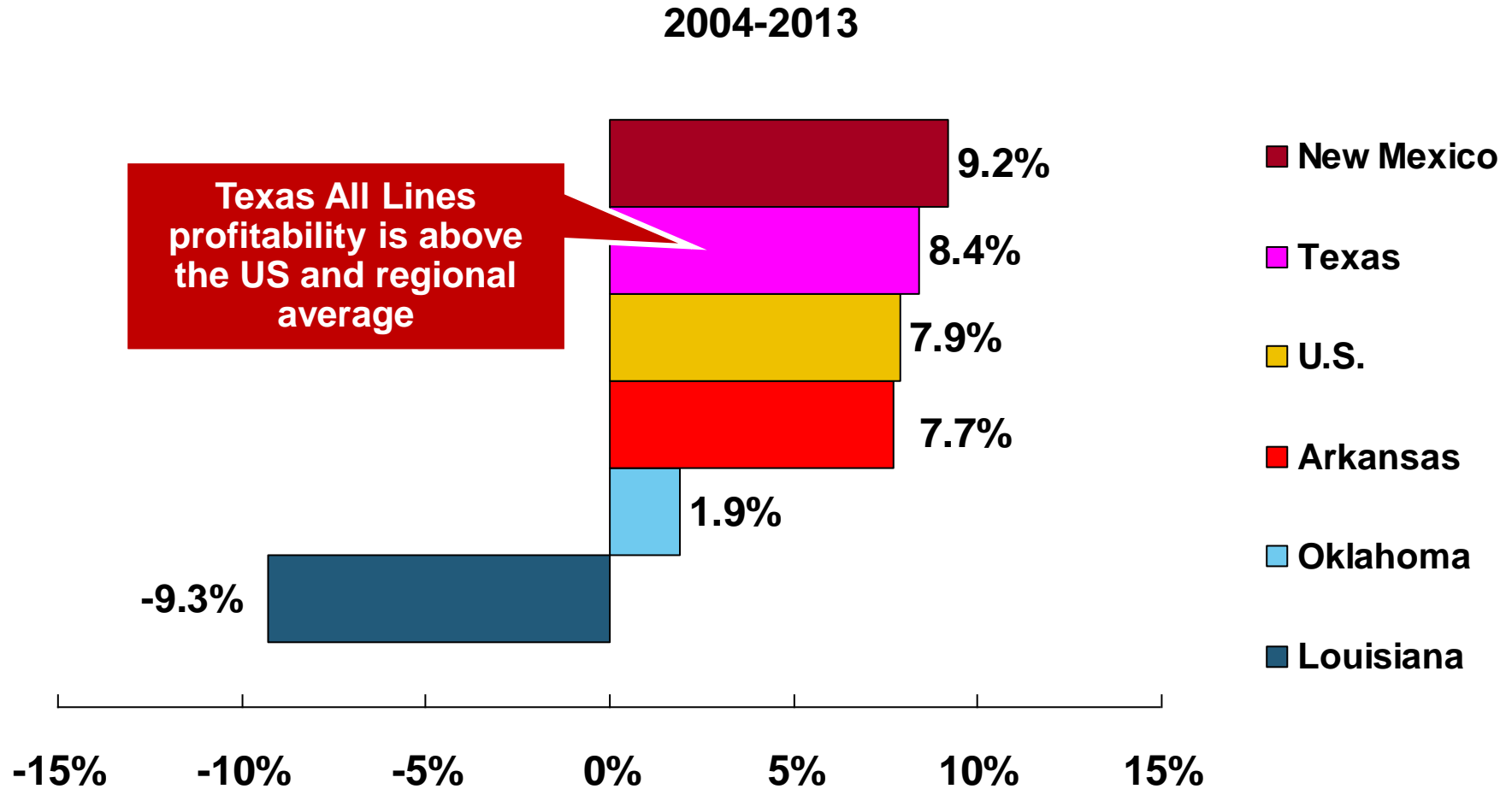


RNW Workers Comp: TX vs. U.S., 2004-2013

(Percent)

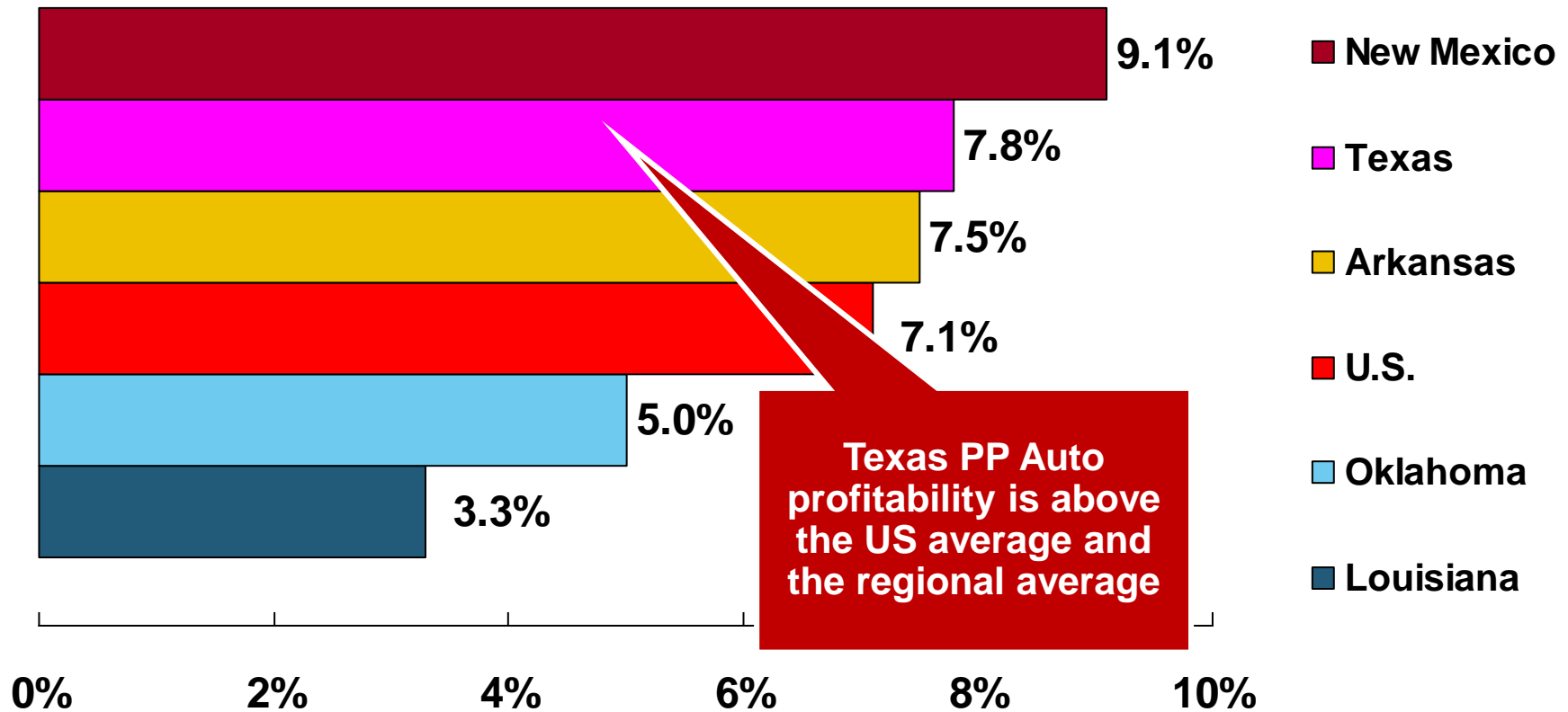


All Lines: 10-Year Average RNW TX & Nearby States



PP Auto: 10-Year Average RNW TX & Nearby States

2004-2013



Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2012 (1)

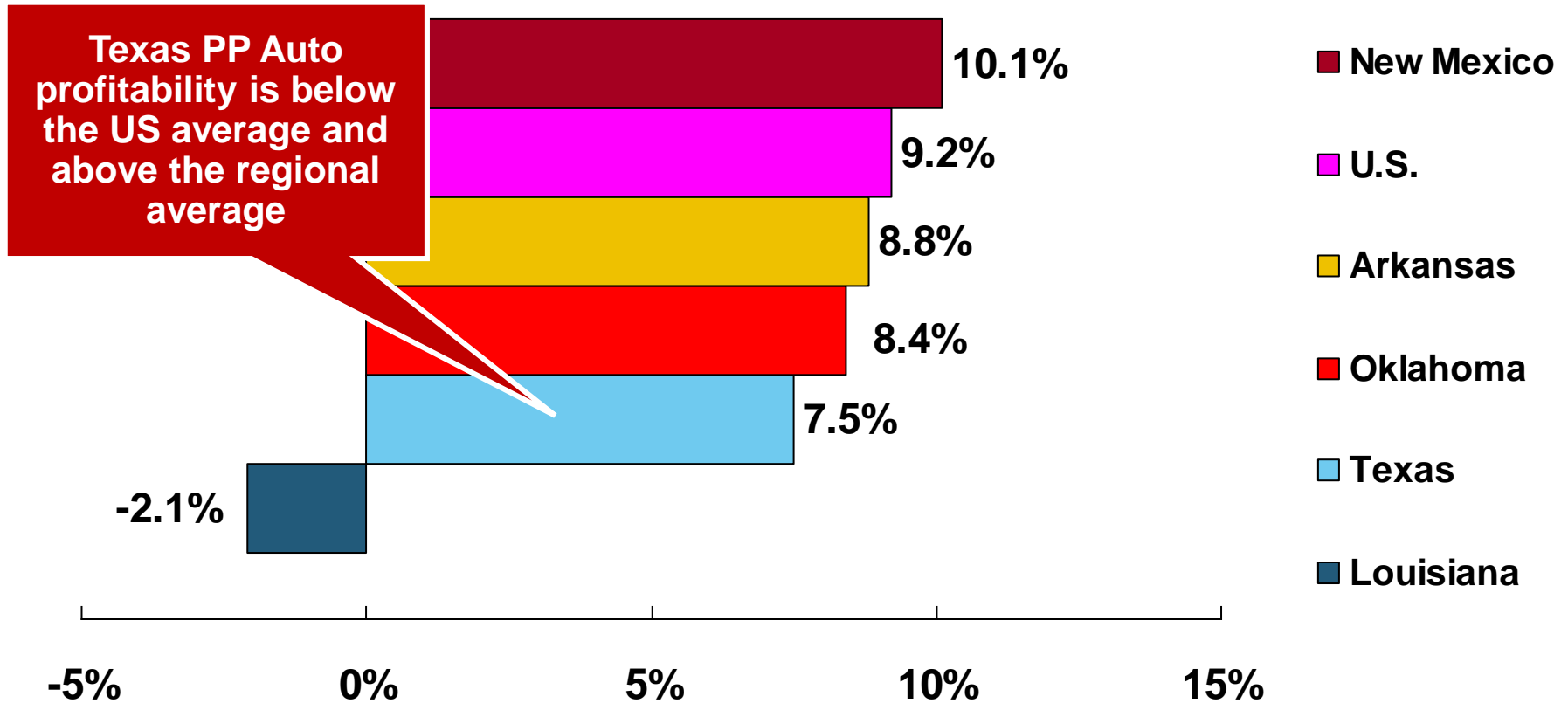
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	New Jersey	\$1,219.93	1	Idaho	\$534.56
2	D.C.	1,154.91	2	South Dakota	556.51
3	New York	1,152.45	3	Iowa	561.26
4	Florida	1,127.93	4	North Dakota	576.08
5	Louisiana	1,112.53	5	Maine	582.43
6	Delaware	1,065.37	6	Wisconsin	598.84
7	Michigan	1,048.87	7	North Carolina	611.48
8	Rhode Island	1,034.50	8	Nebraska	616.78
9	Connecticut	986.73	9	Wyoming	618.81
10	Massachusetts	976.65	10	Kansas	632.07

Texas ranked 14th as the most expensive state in 2012, with an average expenditure for auto insurance of \$858.54.

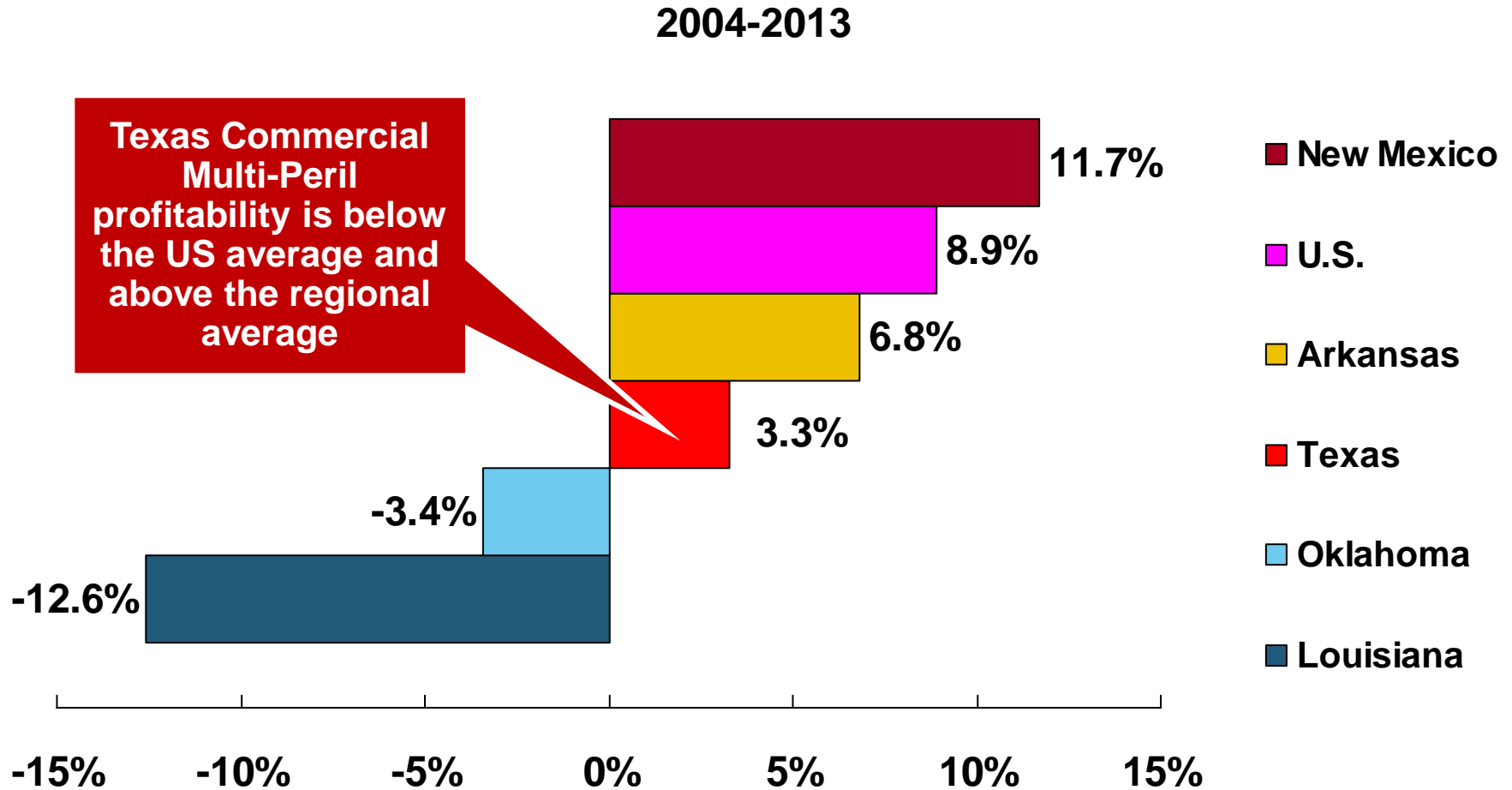
(1) Based on average automobile insurance expenditures.

Comm. Auto: 10-Year Average RNW TX & Nearby States

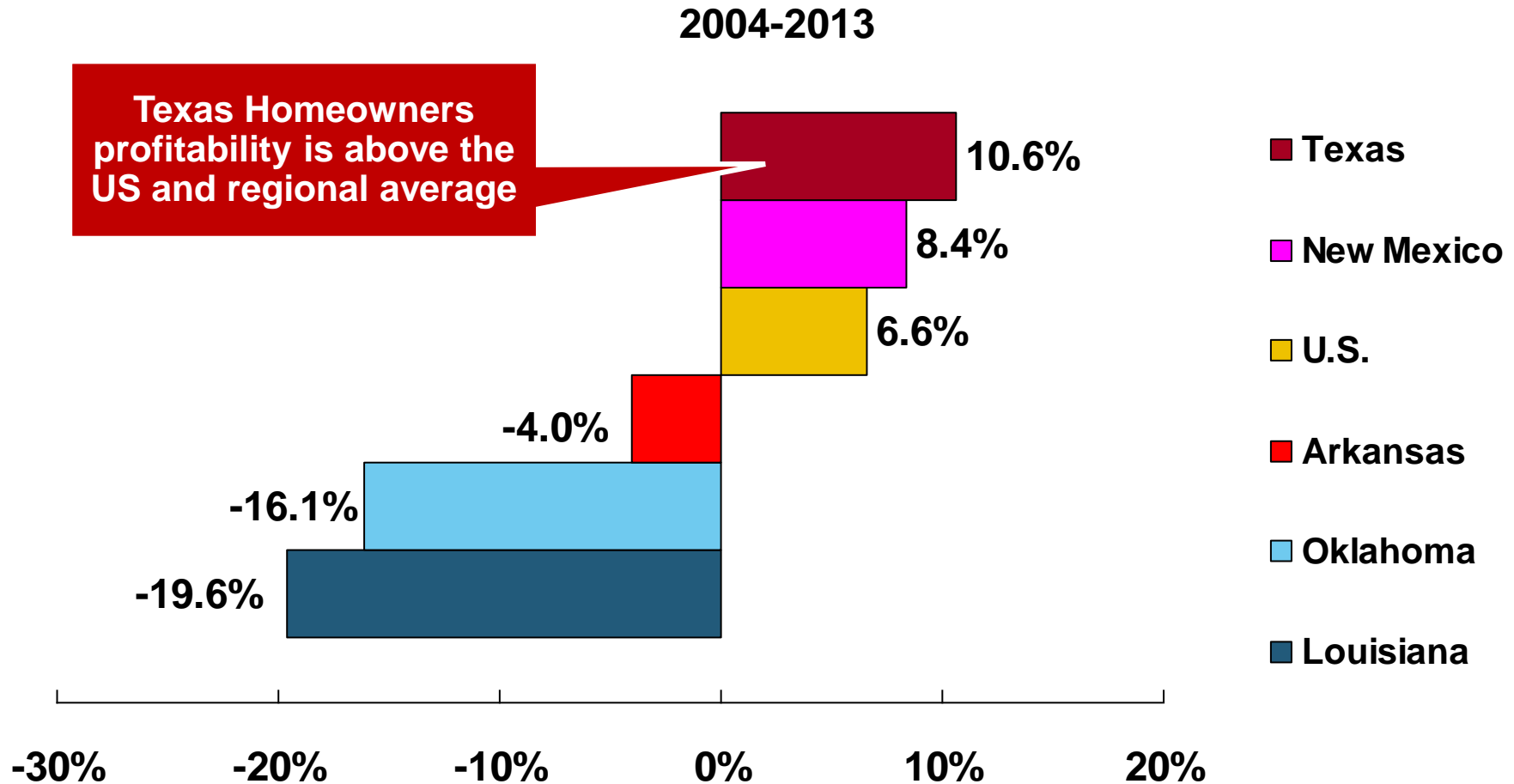
2004-2013



Comm. M-P: 10-Year Average RNW TX & Nearby States



Homeowners: 10-Year Average RNW TX & Nearby States



Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2012 (1)

Texas ranked as the 3rd most expensive state for homeowners insurance in 2012, with an average expenditure of \$1,661.

Rank	Most expensive states	HO average premium	Rank	Least expensive states	HO average premium
1	Florida	\$2,084	1	Idaho	\$538
2	Louisiana	1,742	2	Oregon	567
3	Texas	1,661	3	Utah	580
4	Oklahoma	1,501	4	Wisconsin	631
5	Mississippi	1,314	5	Washington	648
6	Alabama	1,248	6	Nevada	674
7	Rhode Island	1,233	7	Delaware	678
8	Kansas	1,213	8	Arizona	691
9	Connecticut	1,160	9	Ohio	721
10	New York	1,158	10	Maine	741

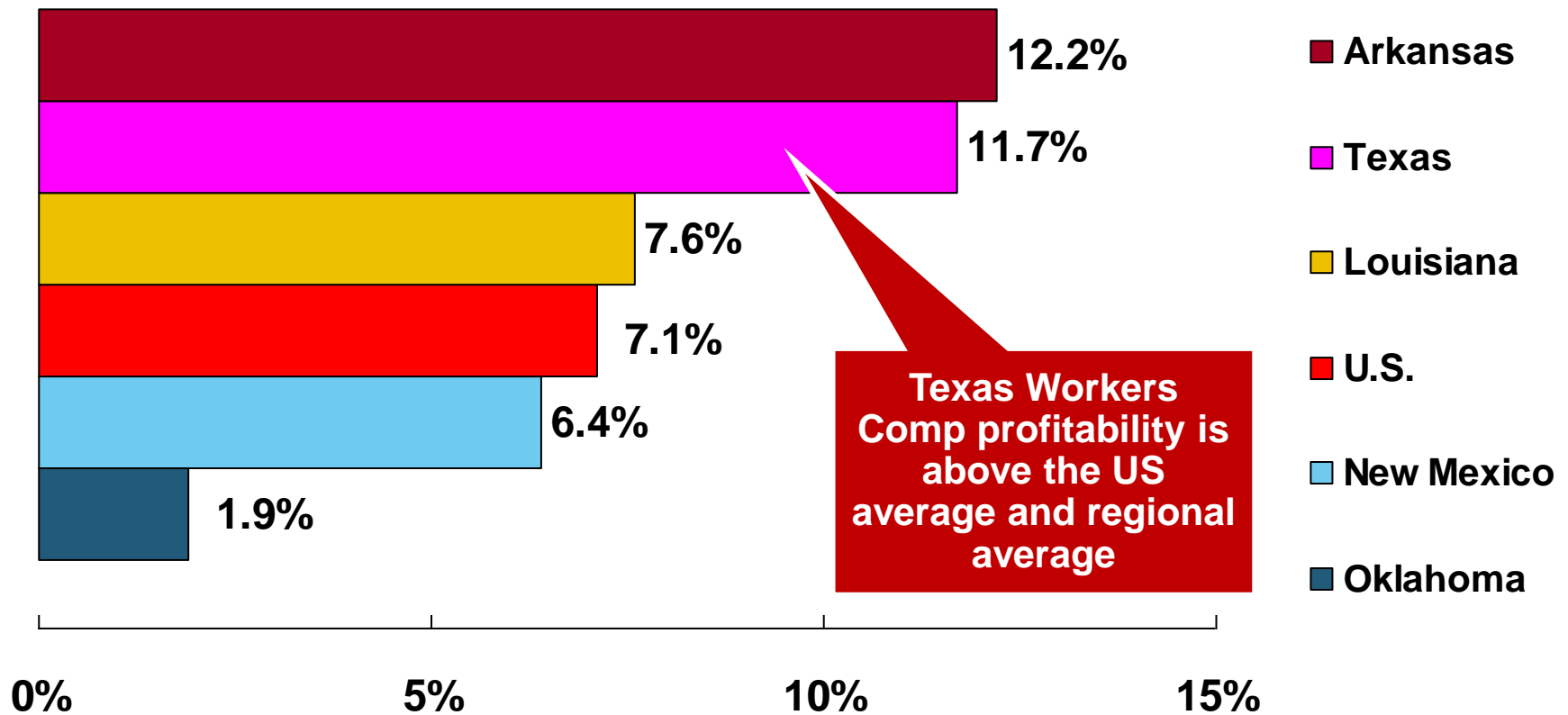
- (1) Includes policies written by Citizens Property Insurance Corp. (Florida) and Citizens Property Insurance Corp. (Louisiana), Alabama Insurance Underwriting Association, Mississippi Windstorm Underwriting Association, North Carolina Joint Underwriting Association and South Carolina Wind and Hail Underwriting Association. Other southeastern states have wind pools in operation and their data may not be included in this chart. Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.
- (2) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. In addition, due to the Texas Windstorm Association (which writes wind-only policies) classifying HO-1, 2 and 5 premiums as HO-3, the average premium for homeowners insurance is artificially high.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank state average expenditures and does not endorse any conclusions drawn from this data.

Source: ©2014 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

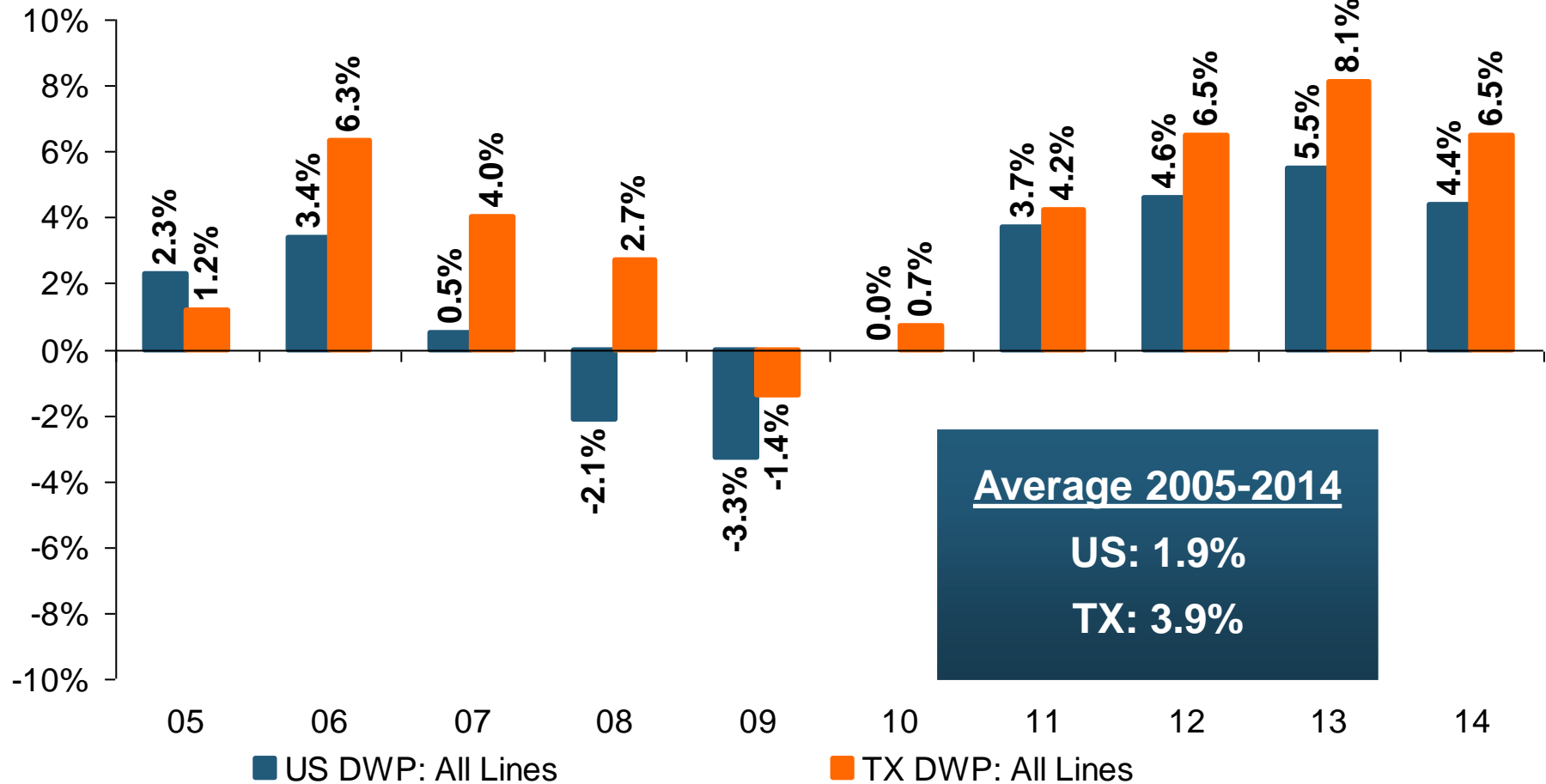
Workers Comp: 10-Year Average RNW TX & Nearby States

2004-2013



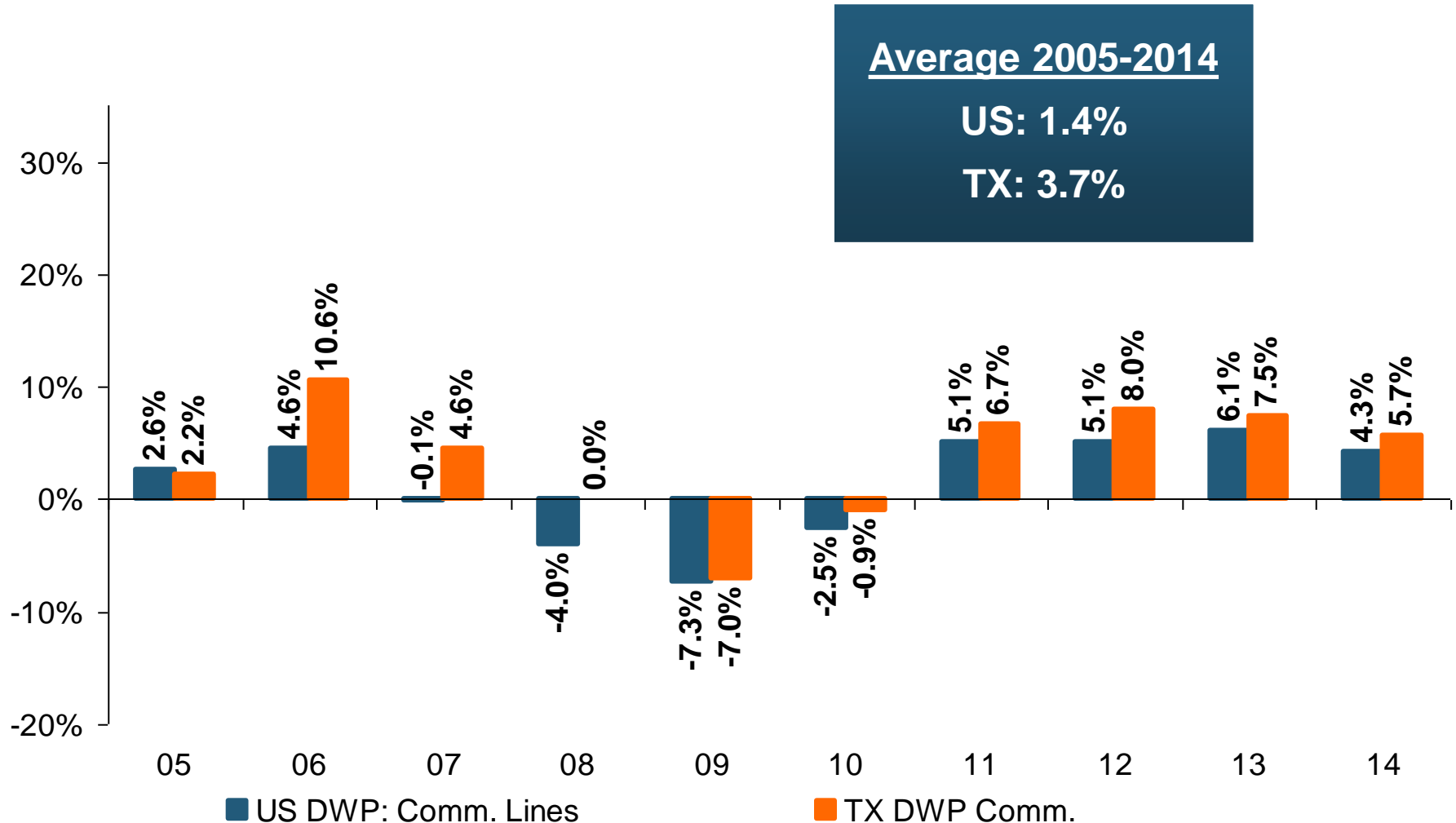
All Lines DWP Growth: TX vs. U.S., 2005-2014

(Percent)



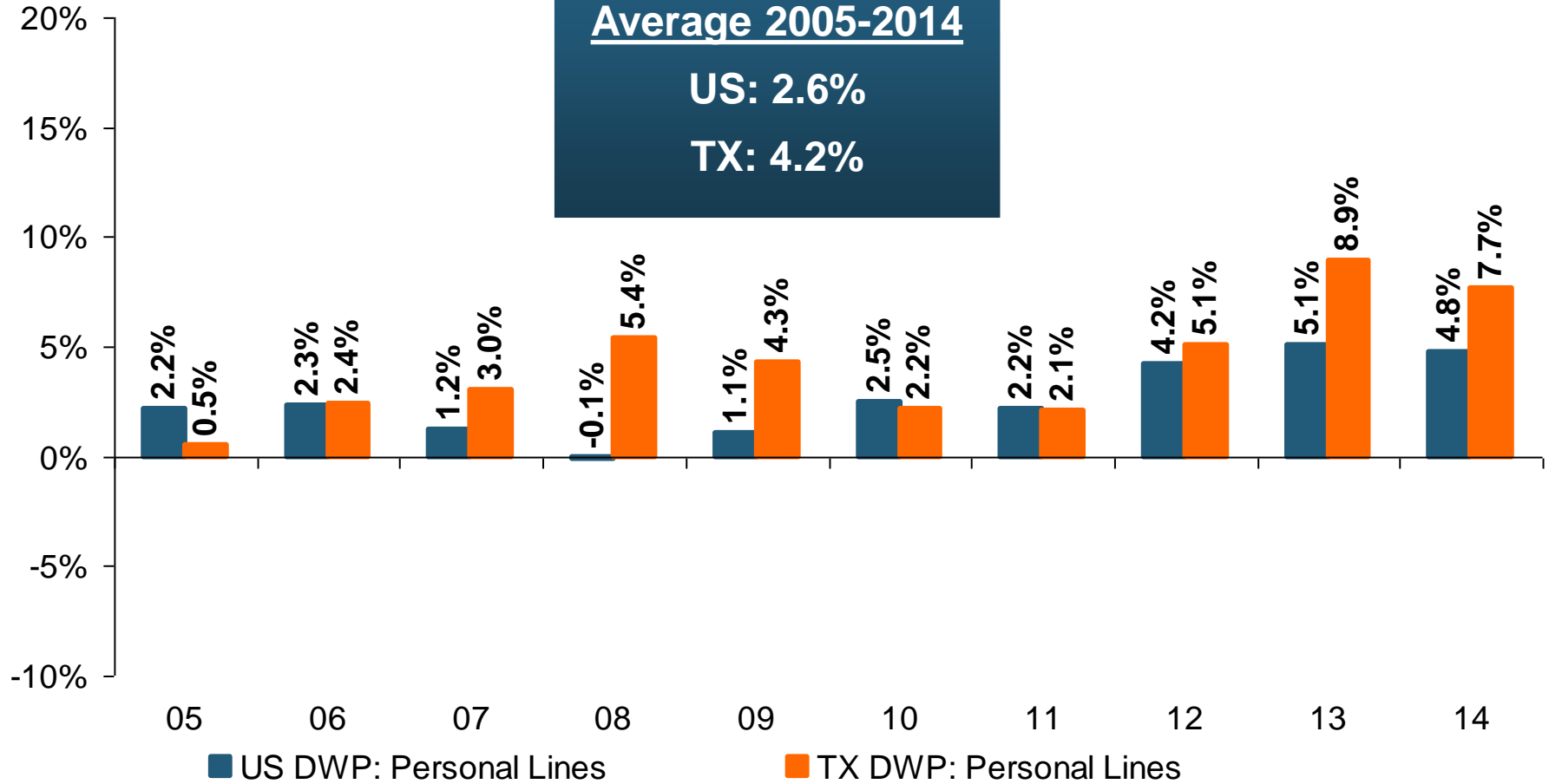
Comm. Lines DWP Growth: TX vs. U.S., 2005-2014

(Percent)



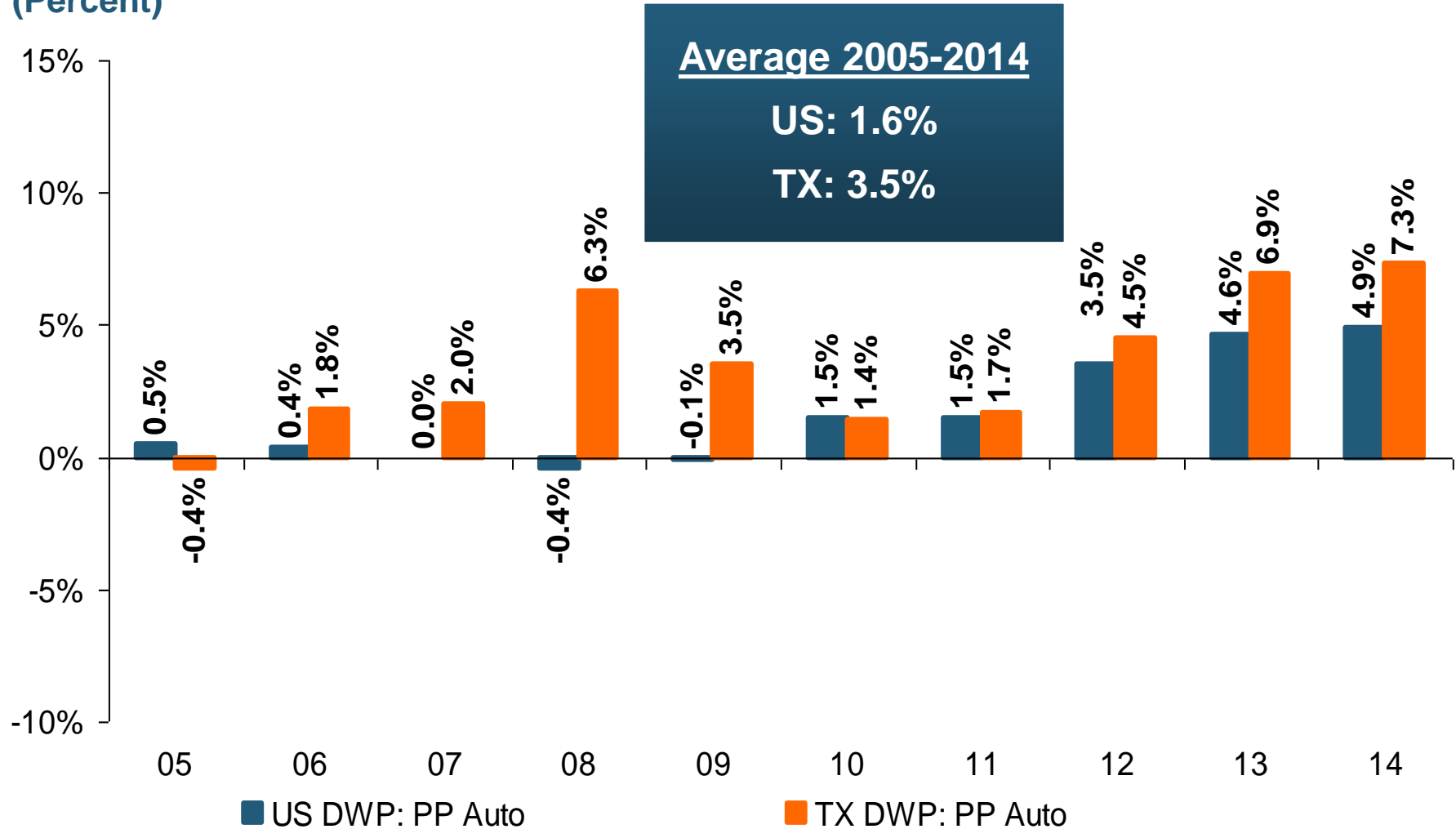
Personal Lines DWP Growth: TX vs. U.S., 2005-2014

(Percent)



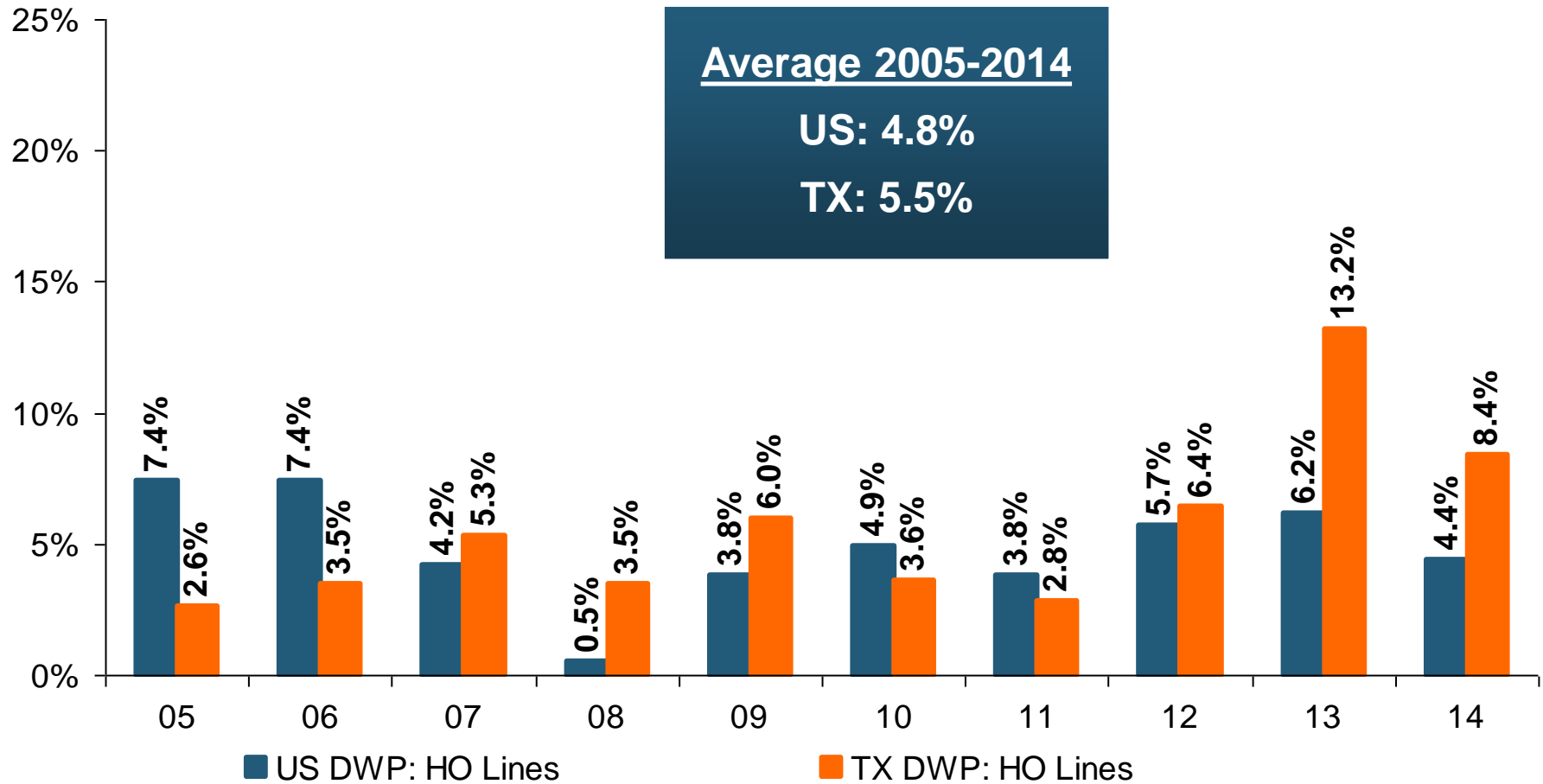
Private Passenger Auto DWP Growth: TX vs. U.S., 2005-2014

(Percent)



Homeowner's MP DWP Growth: TX vs. U.S., 2005-2014

(Percent)



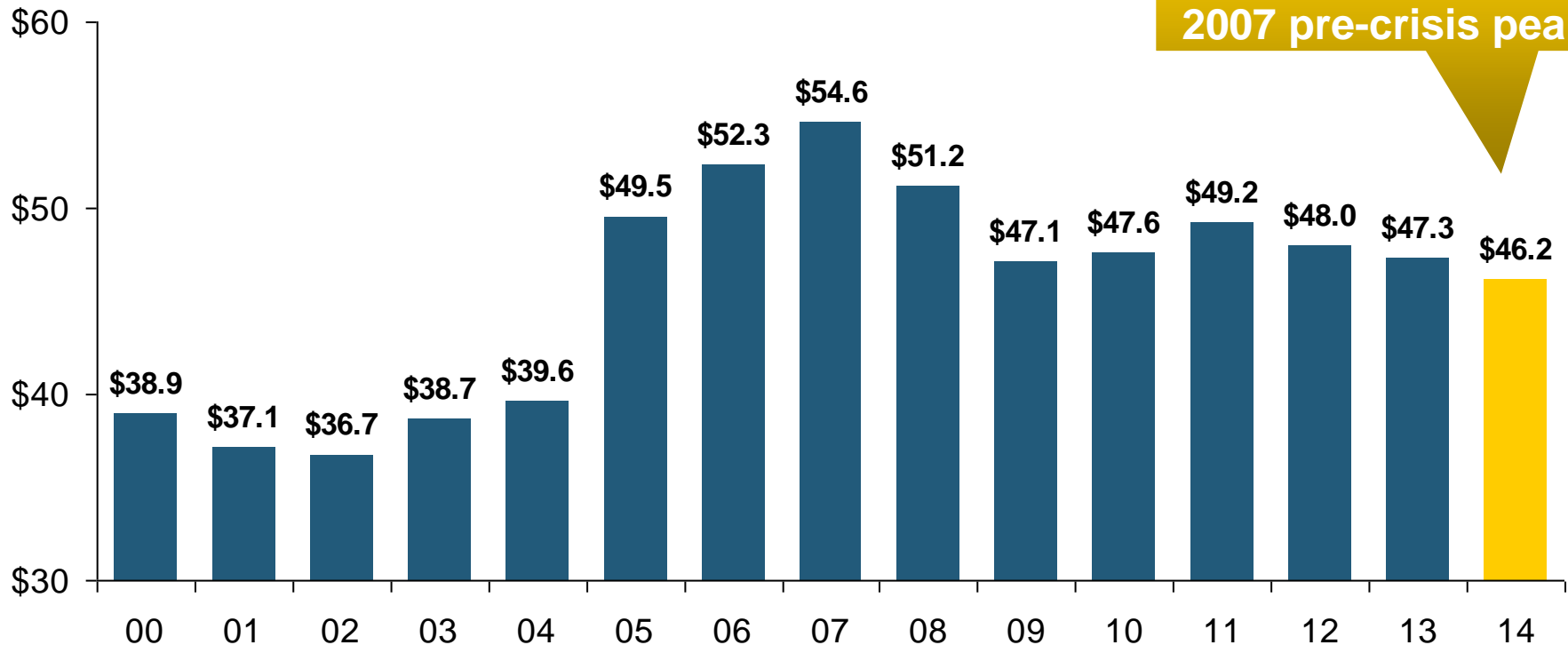
**INVESTMENTS:
THE NEW REALITY**

**Investment Performance is a Key
Driver of Profitability**

***Depressed Yields Will Necessarily
Influence Underwriting & Pricing***

Property/Casualty Insurance Industry Investment Income: 2000–2014¹

(\$ Billions)



Investment earnings
are still below their
2007 pre-crisis peak

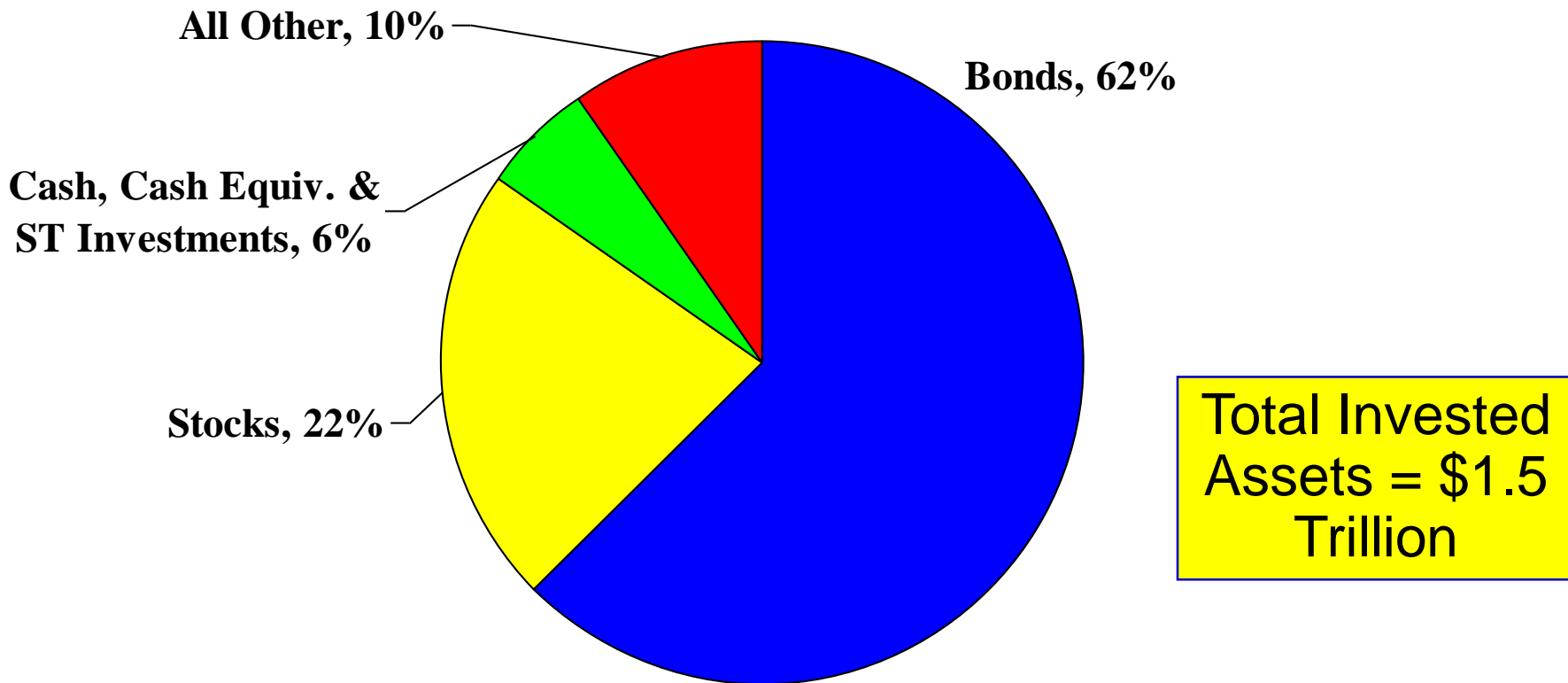
**Due to persistently low interest rates,
investment income fell in 2012, 2013 and 2014.**

¹ Investment gains consist primarily of interest and stock dividends.
Sources: ISO; Insurance Information Institute.

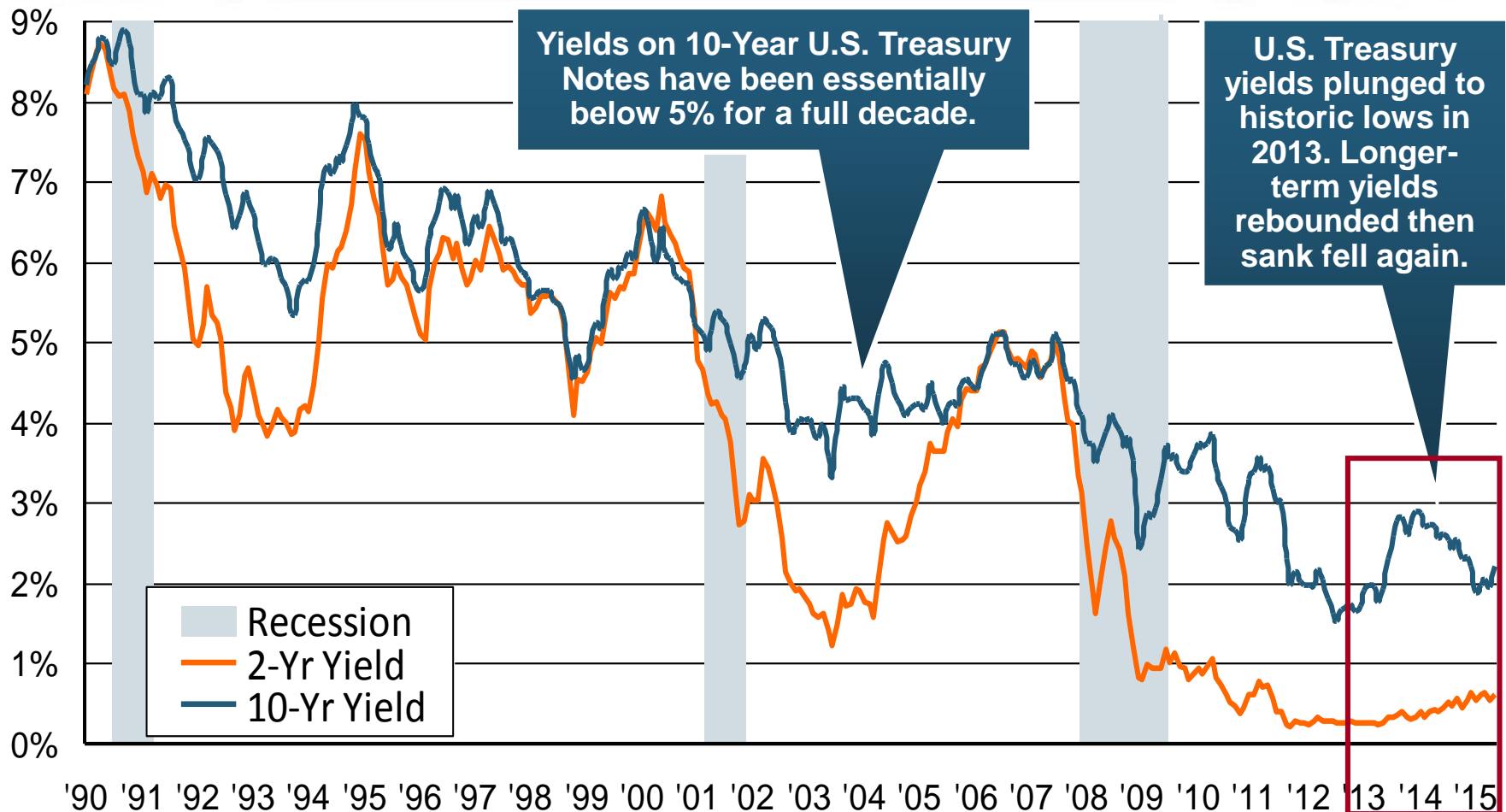
*2014 figure is estimated based on annualized data through Q3.

Distribution of Invested Assets: P/C Insurance Industry, 2013

\$ Billions



U.S. Treasury Security Yields: A Long Downward Trend, 1990–2015*

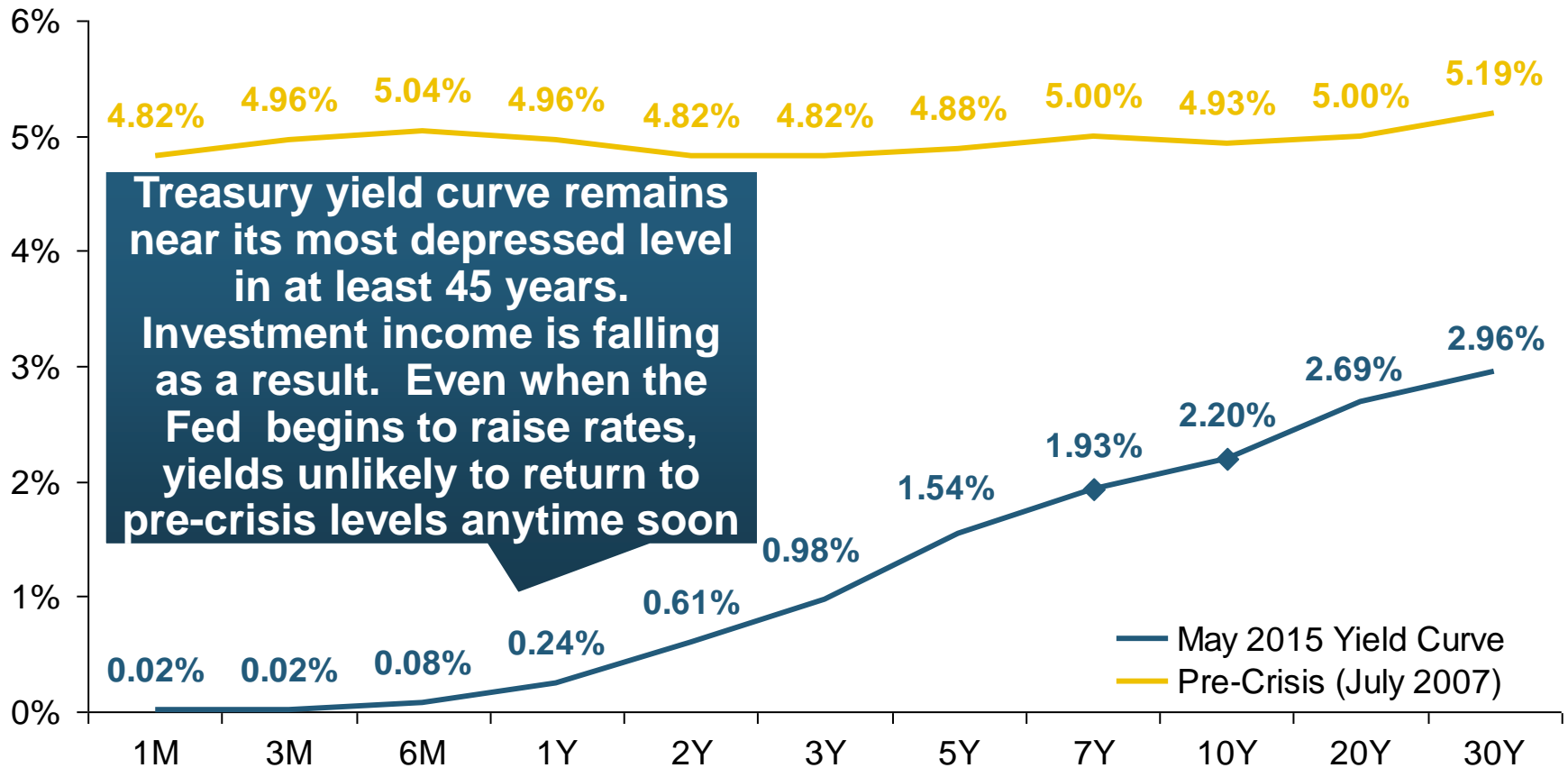


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through May 2015.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>. National Bureau of Economic Research (recession dates); Insurance Information Institute.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. May 2015

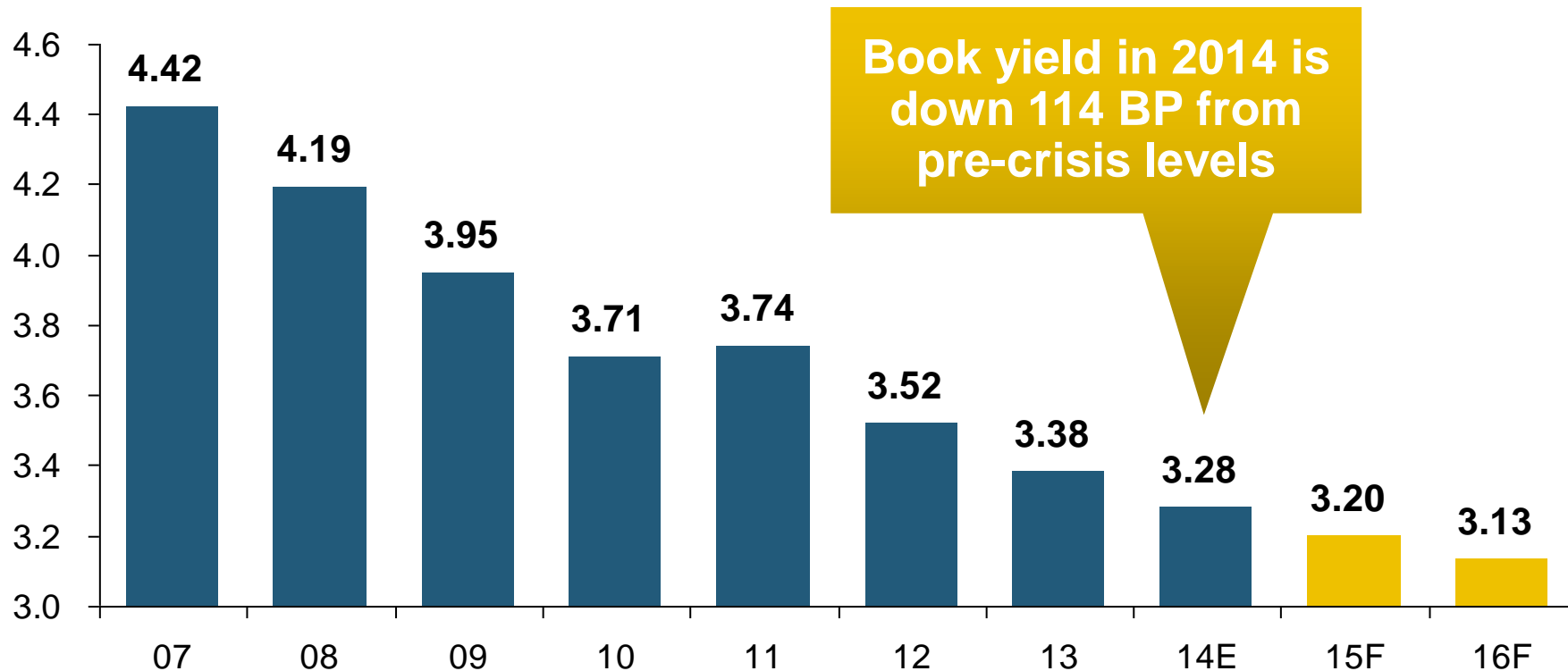


Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Even when the Fed begins to raise rates, yields unlikely to return to pre-crisis levels anytime soon

The Fed Is Actively Signaling that it Is Like to Begin to Raise Rates But No Sooner than June and Probably Later

Book Yield on Property/Casualty Insurance Invested Assets, 2007–2016F

(Percent)



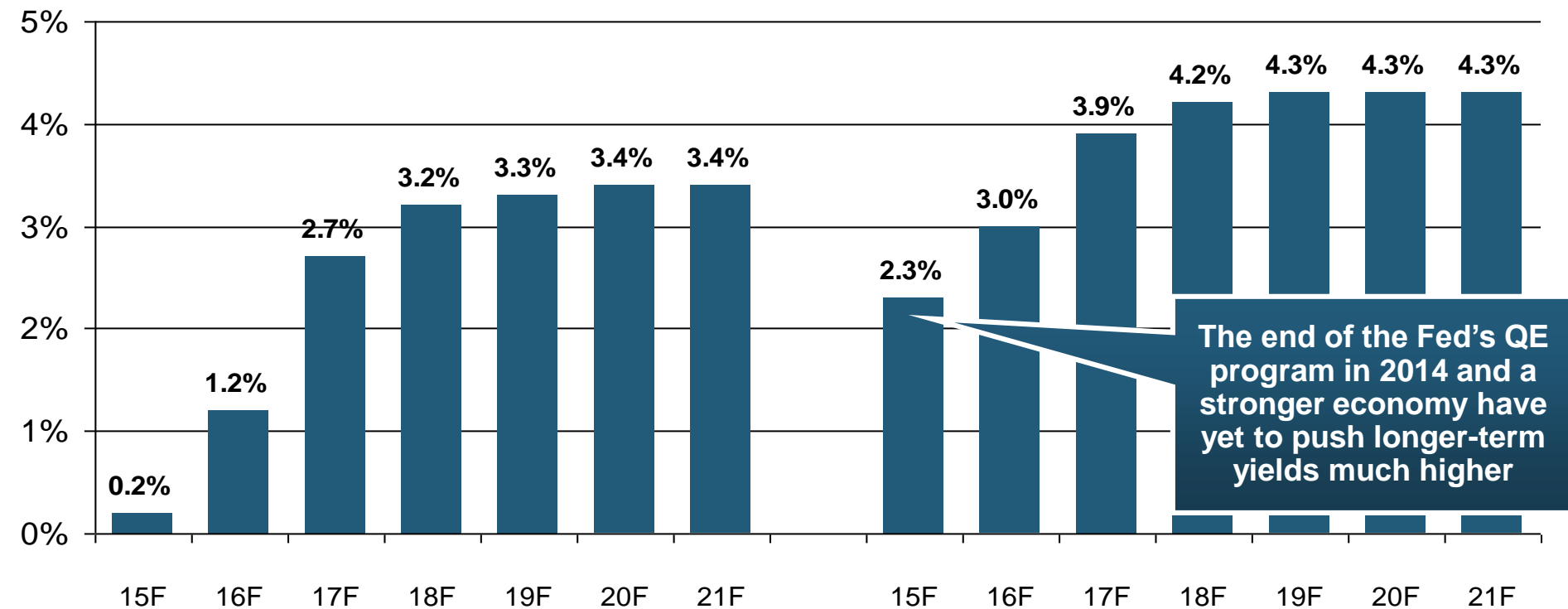
The yield on invested assets continues to decline as returns on maturing bonds generally still exceed new money yields. The end of the Fed's QE program in Oct. 2014 should allow some increase in longer maturities while short term interest rate increases are unlikely until mid-to-late 2015

Interest Rate Forecasts: 2015 – 2021

Yield (%)

3-Month Treasury

10-Year Treasury



A full normalization of interest rates is unlikely until 2018, more than a decade after the onset of the financial crisis.

Annual Inflation Rates, (CPI-U, %), 1990–2016F

Annual Inflation Rates (%)



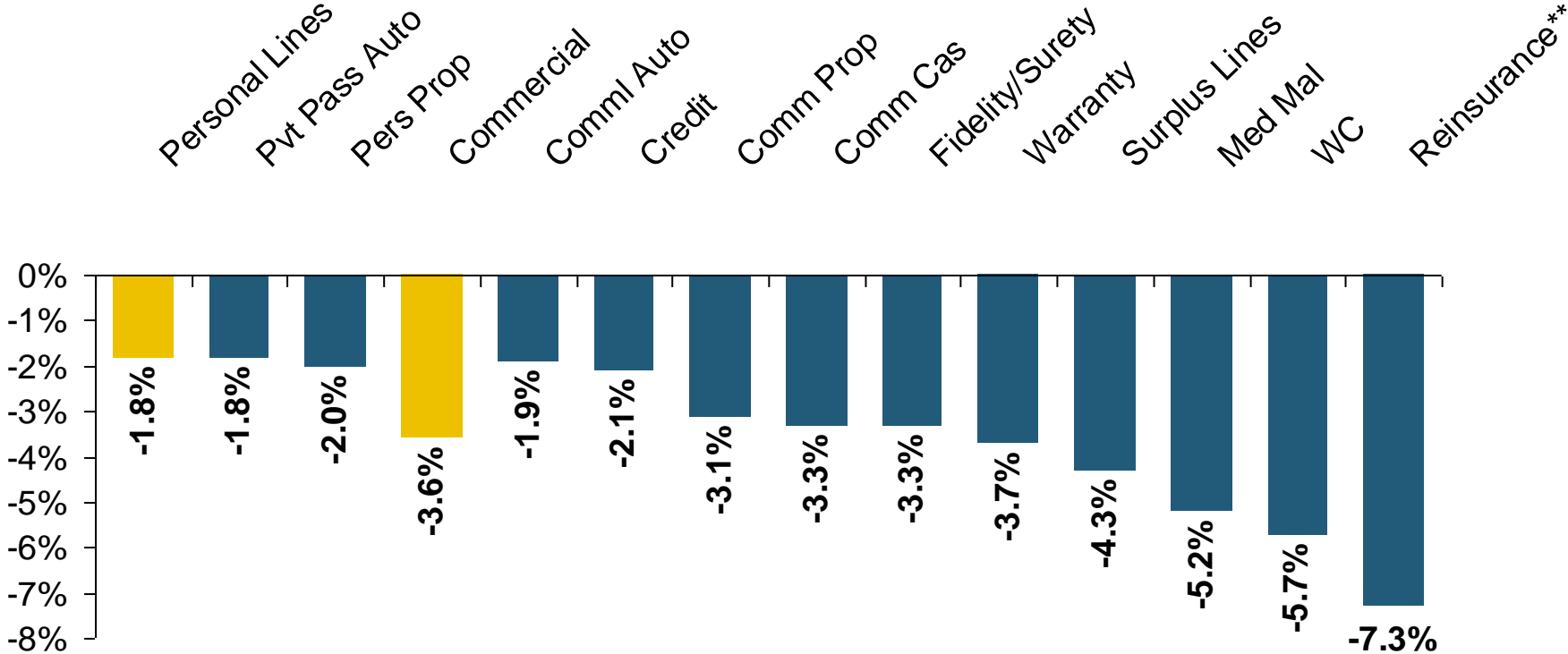
Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

Inflationary expectations have slipped (due in part to falling energy costs) allowing the Fed to maintain low interest rates

Slack in the U.S. economy and falling energy prices suggests that inflationary pressures should remain subdued for an extended period of times

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 5/15 (forecasts).

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*



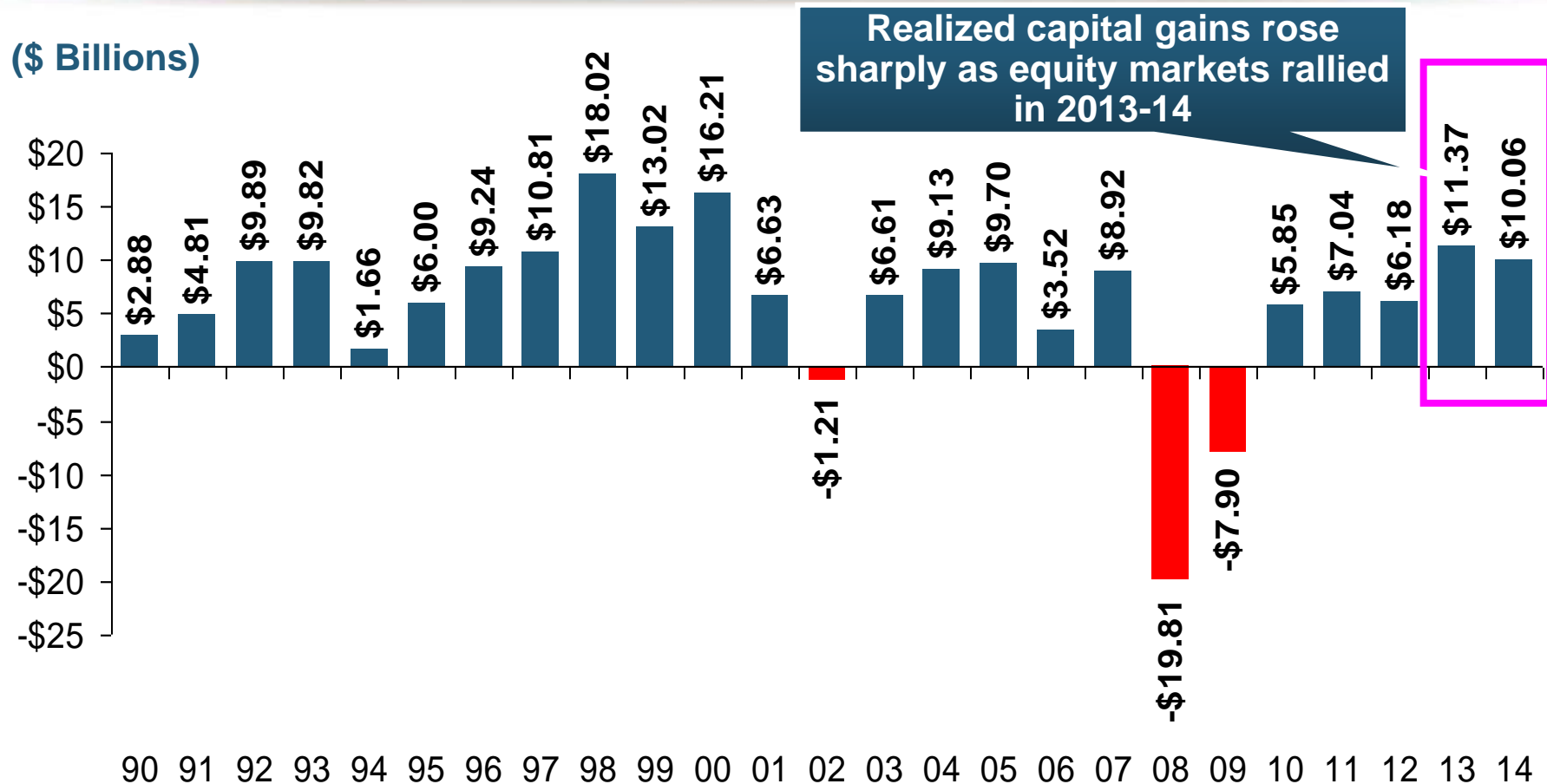
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

Source: A.M. Best; Insurance Information Institute.

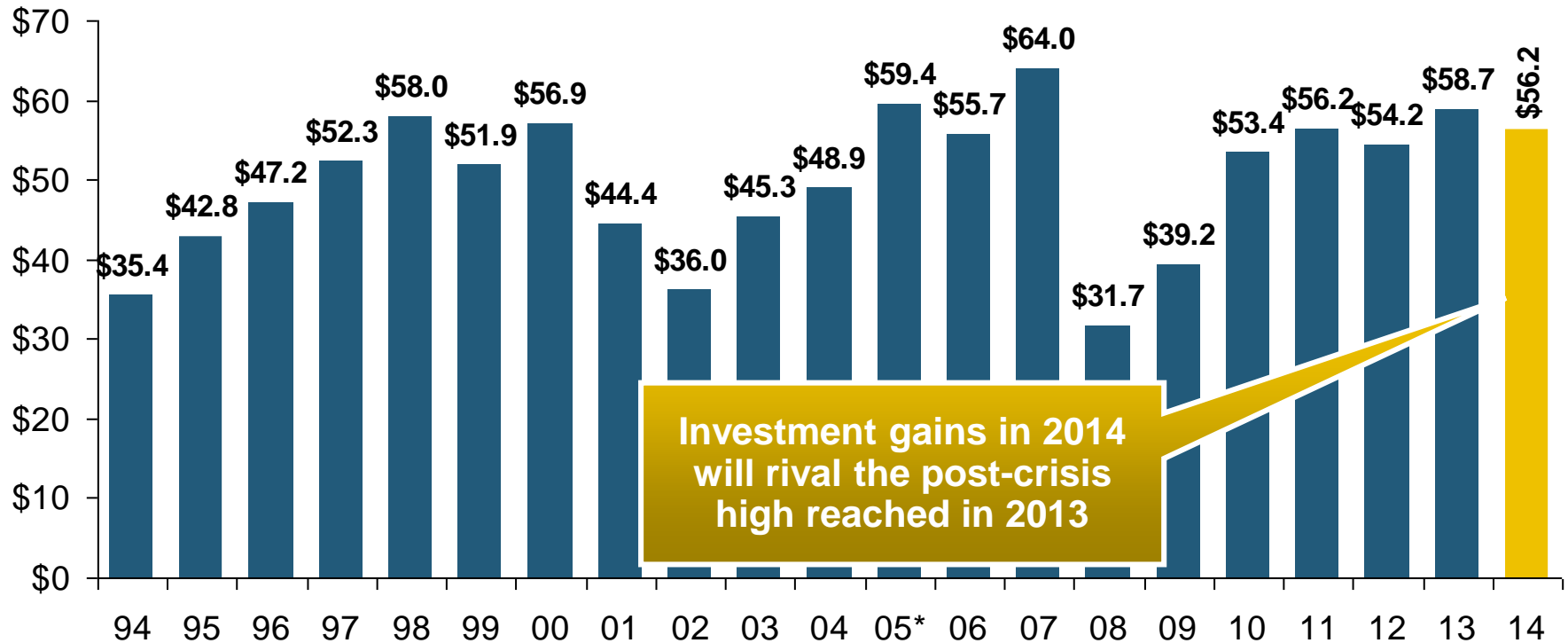
P/C Insurer Net Realized Capital Gains/Losses, 1990-2014



Insurers Posted Net Realized Capital Gains in 2010 - 2014 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE

Property/Casualty Insurance Industry Investment Gain: 1994–2014¹

(\$ Billions)



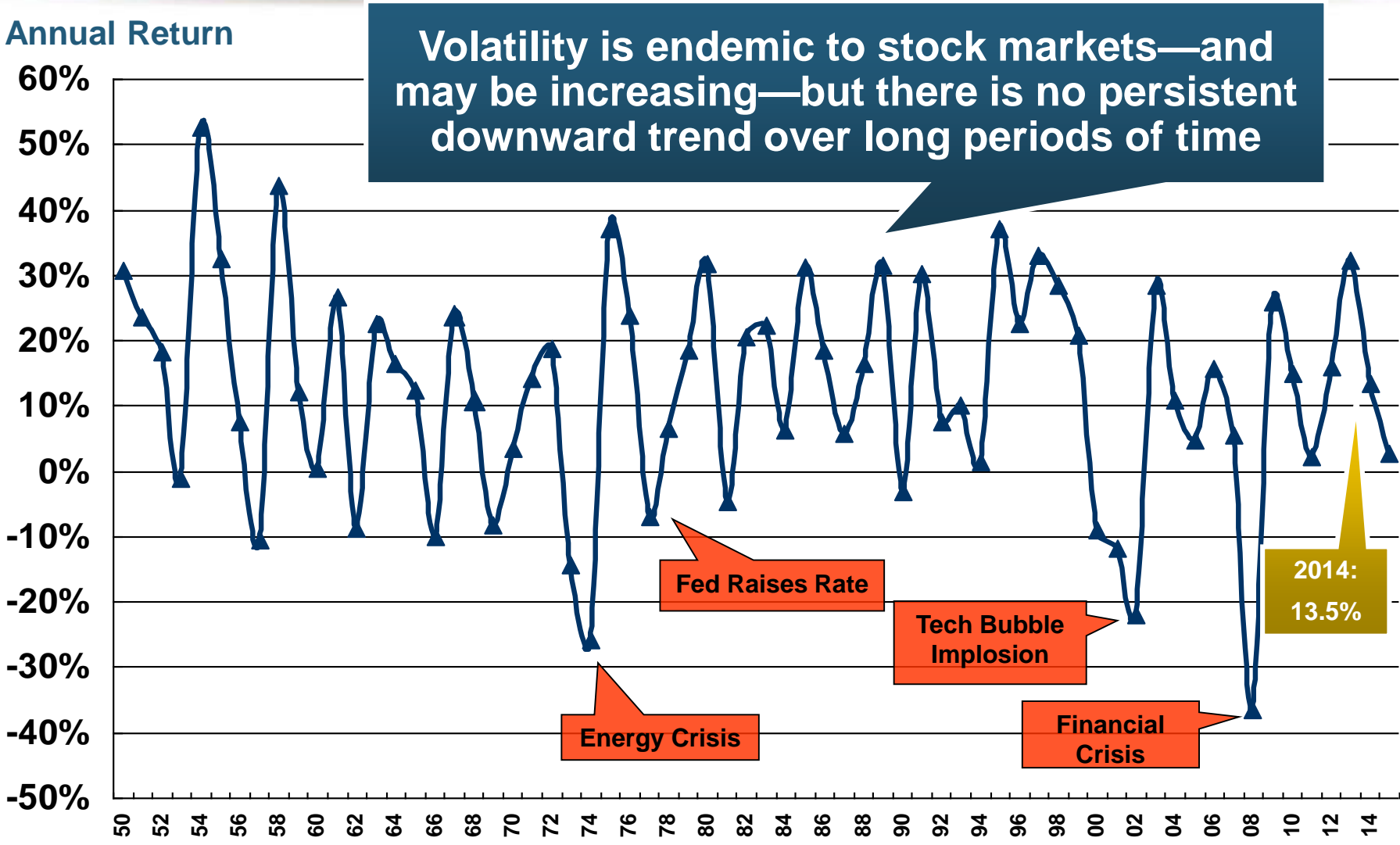
Total Investment Gains Were Down Slightly in 2014 as Low Interest Rates Pressured Investment Income but Realized Capital Gains Remained Robust

¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of \$3.2B;

Sources: ISO; Insurance Information Institute.

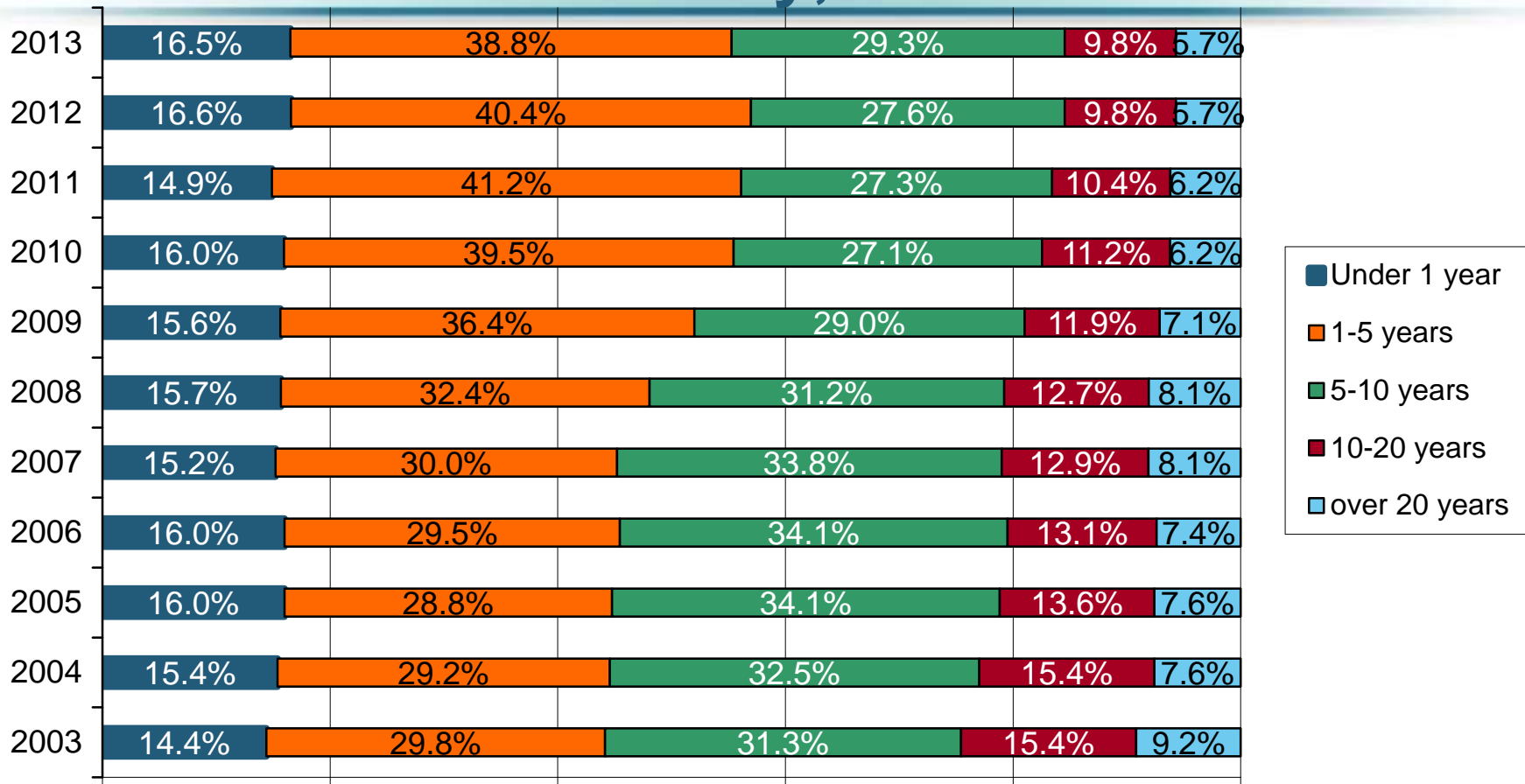
S&P 500 Index Returns, 1950 – 2015*



*Through April 28, 2015.

Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html Ins. Info. Inst.

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2013



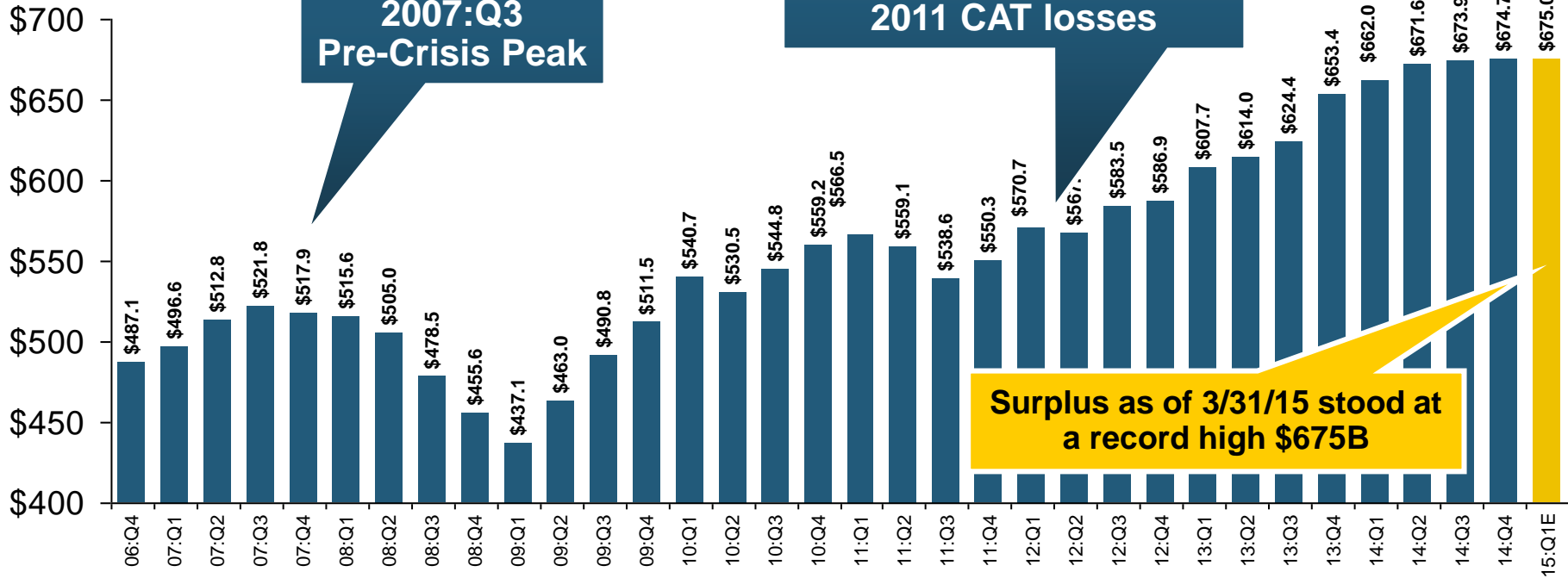
The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

CAPITAL/CAPACITY

Capital Accumulation Has Multiple Impacts

Policyholder Surplus, 2006:Q4–2015:Q1E

(\$ Billions)



The industry now has \$1 of surplus for every \$0.73 of NPW, close to the strongest claims-paying status in its history.

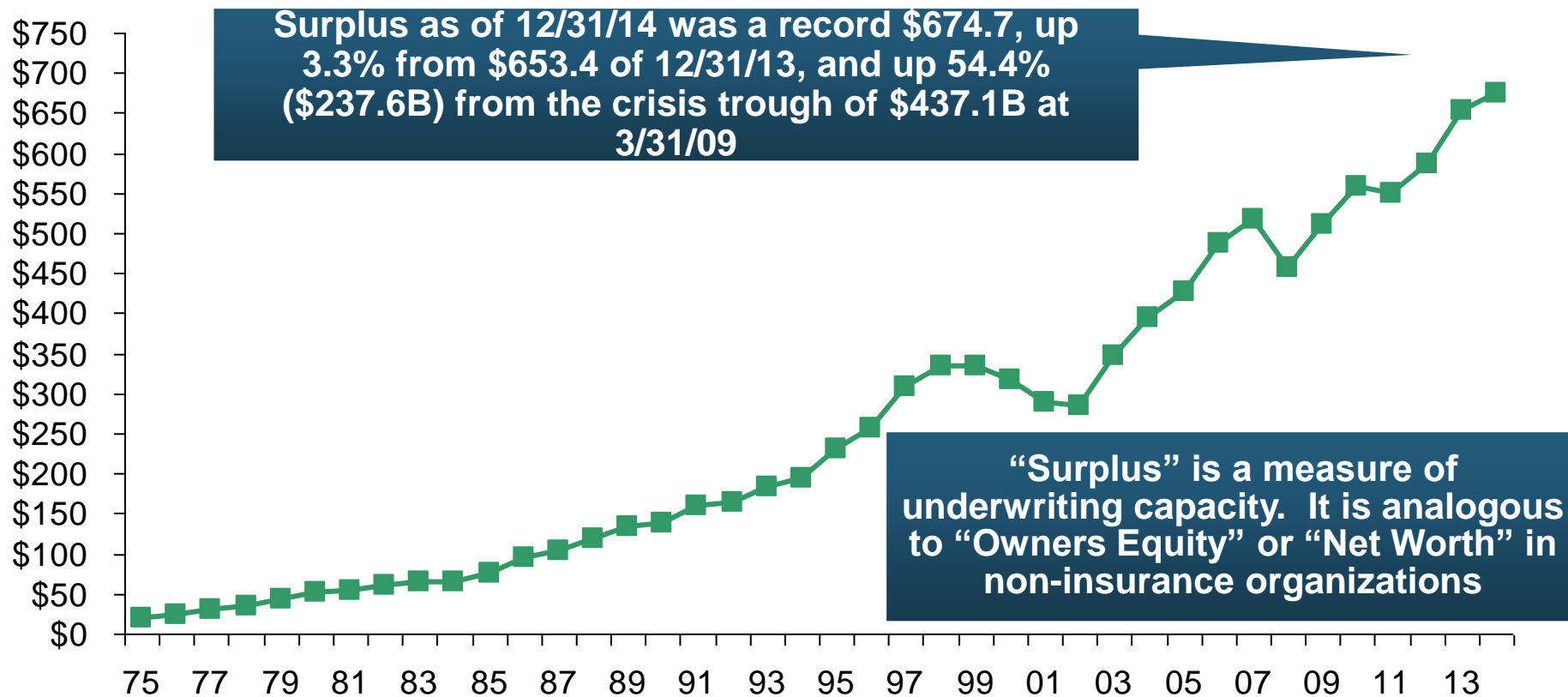
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business .

The P/C insurance industry entered 2015 in very strong financial condition.

Sources: ISO, A.M .Best.

US Policyholder Surplus: 1975–2014*

(\$ Billions)



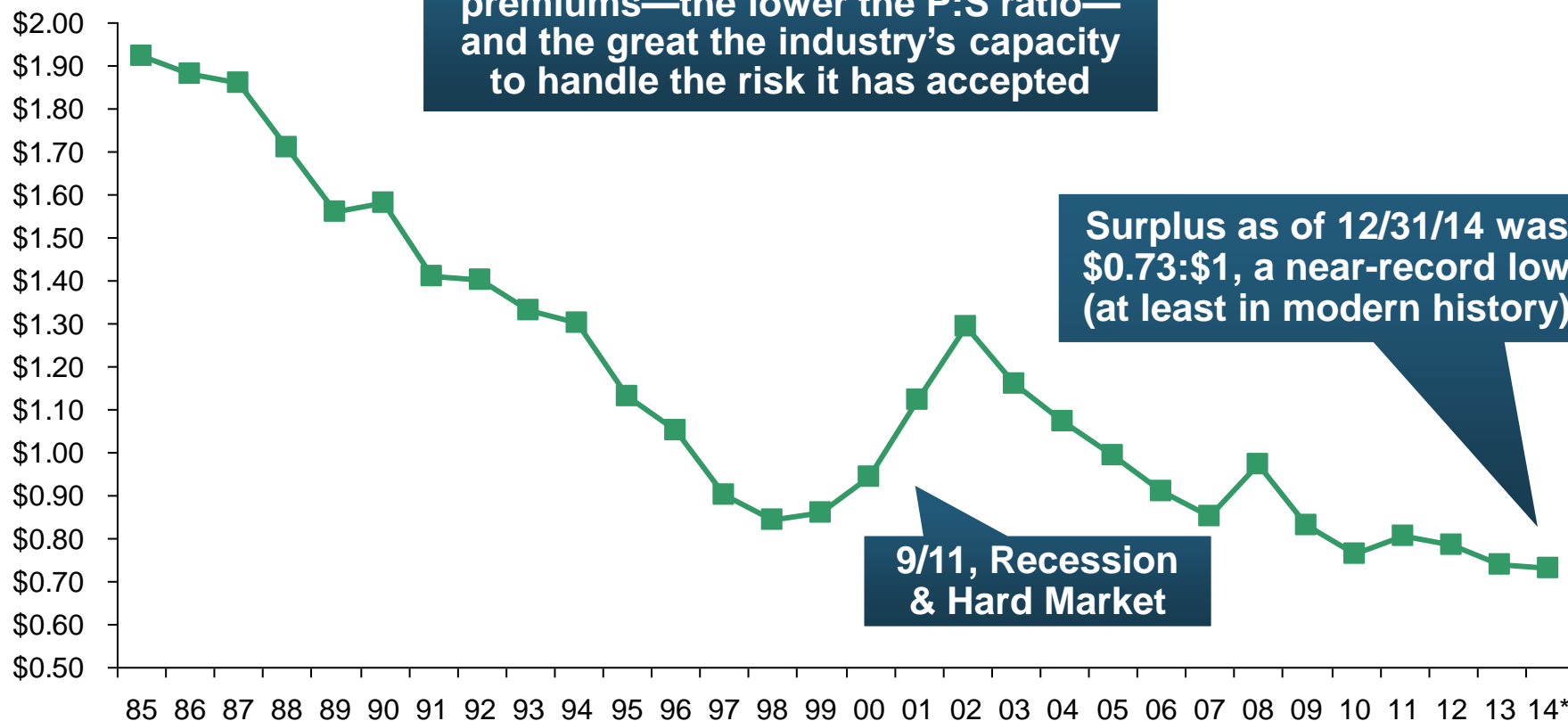
The Premium-to-Surplus Ratio Stood at \$0.73:\$1 as of 12/31/14, a Near Record Low (at Least in Recent History)

* As of 12/31/14.

Source: A.M. Best, ISO, Insurance Information Institute.

Premium-to-Surplus Ratio: 1985–2014*

(Ratio of NWP to PHS)

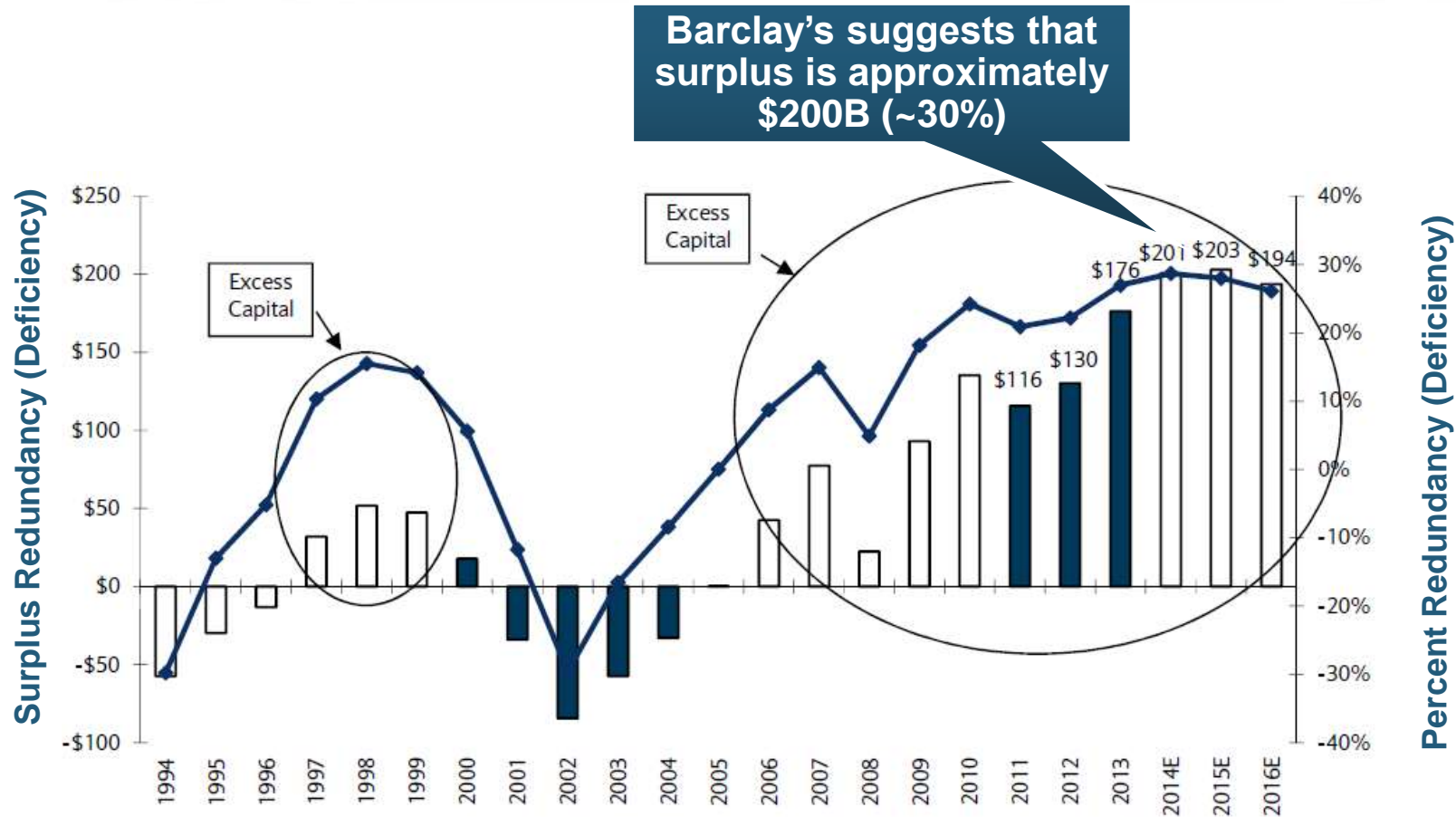


The Premium-to-Surplus Ratio Stood at \$0.73:\$1 as of 12/31/14, a Record Low (at Least in Recent History)

* As of 12/31/14.

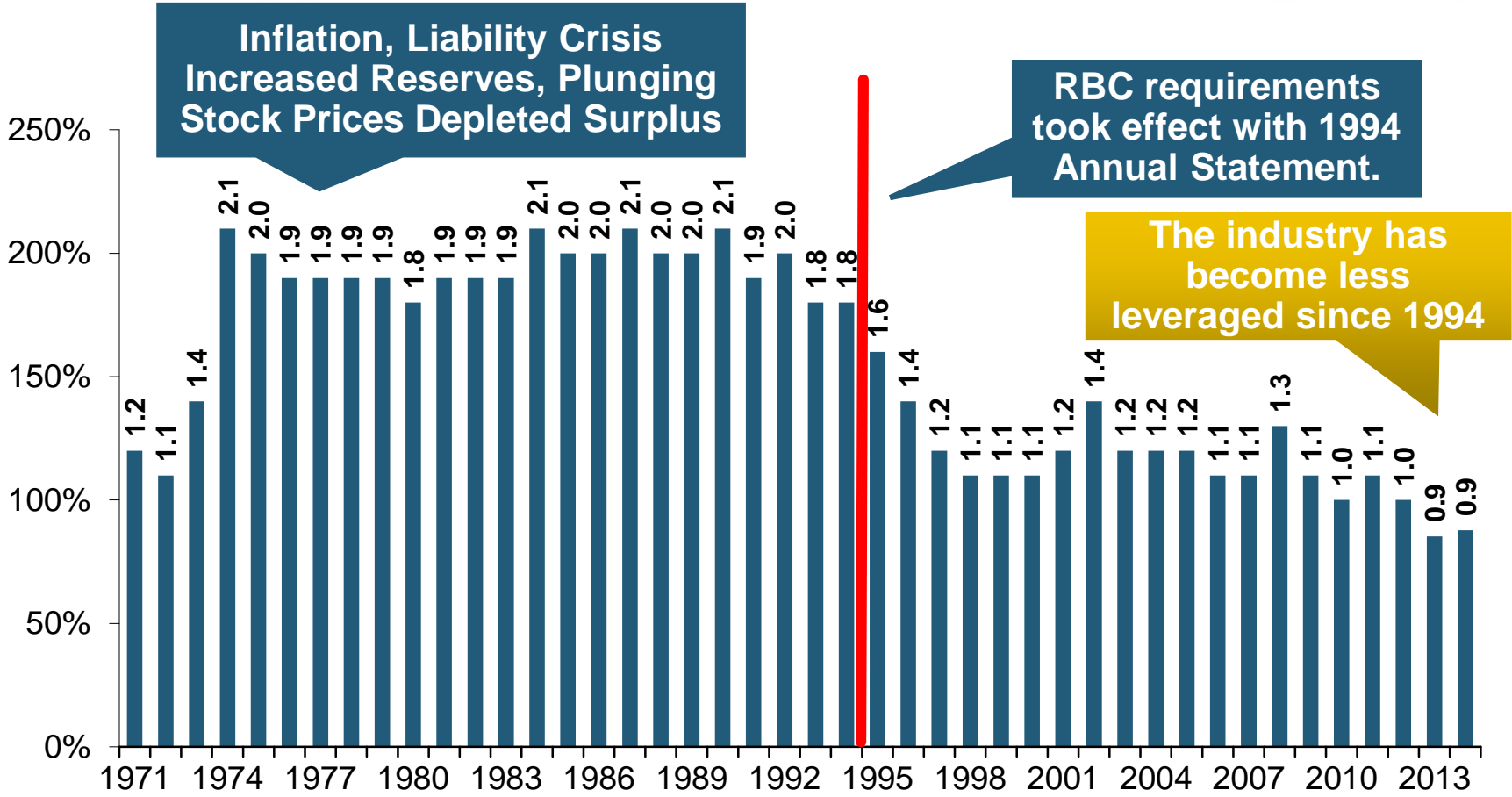
Source: A.M. Best, ISO, Insurance Information Institute.

US P/C Insurance Industry Excess Capital Position: 1994–2016E



The Industry's Strong Capital Position Suggests Insurers Are in a Good Position to Increase Risk Appetite, Repurchase Shares and Pursue Acquisitions

P/C Industry: Loss Reserve-to-Surplus Ratio, 1971-2014



The Property/Casualty Industry Adjusted Its Risk Portfolio in Response to Risk-Based Capital Requirements Implemented in 1994.

Source: Calculations from A.M. Best and ISO data by Insurance Information Institute.

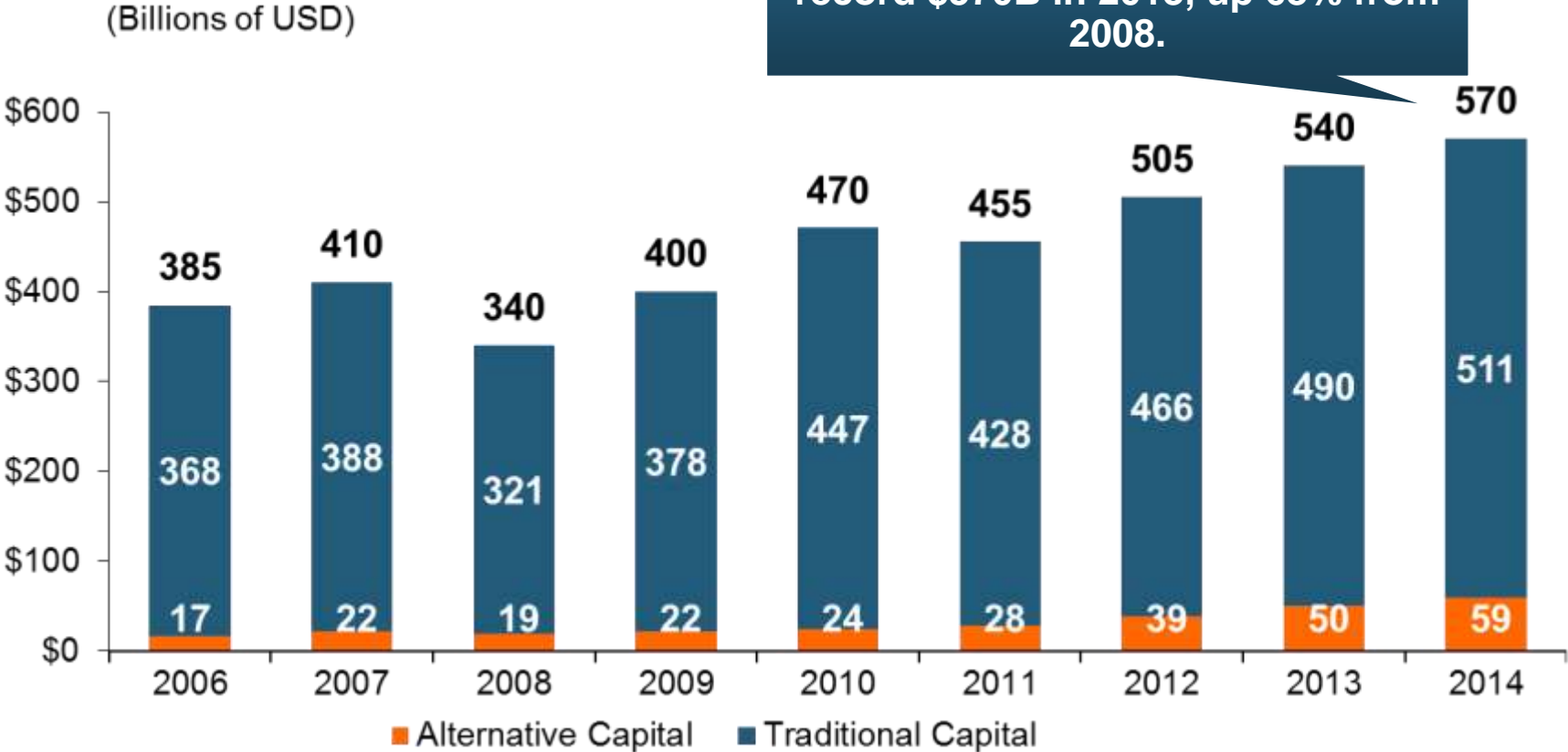
Alternative Capital

**New Investors Continue to Change
the Reinsurance Landscape**

***First I.I.I. White Paper on Issue Was
Released in March 2015***

Global Reinsurance Capital (Traditional and Alternative), 2006 - 2014

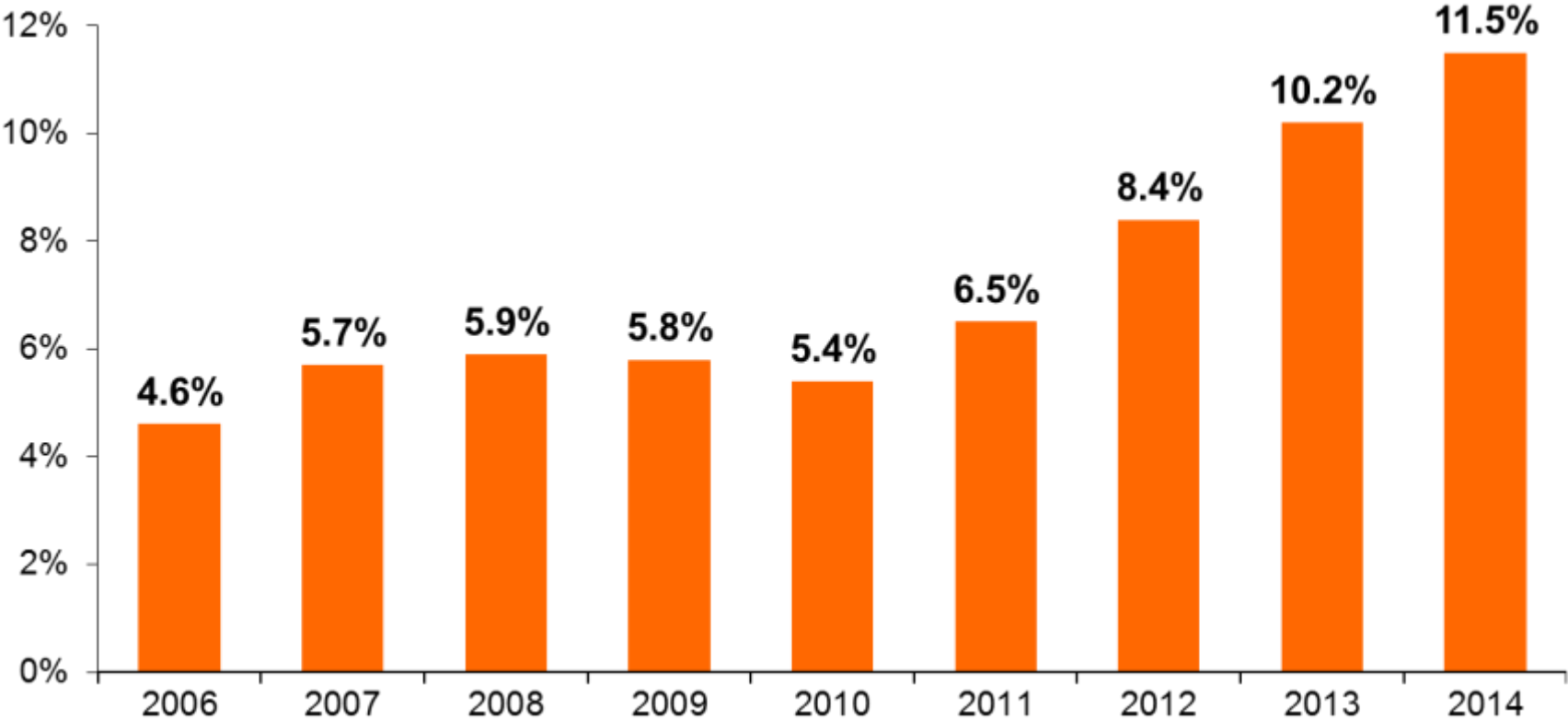
Total reinsurance capital reached a record \$570B in 2013, up 68% from 2008.



But alternative capacity has grown 210% since 2008, to \$50B. It has more than doubled in the past three years.

2014 data is as of June 30, 2014.
Source: Aon Benfield Analytics; Insurance Information Institute.

Alternative Capital as a Percentage of Traditional Global Reinsurance Capital

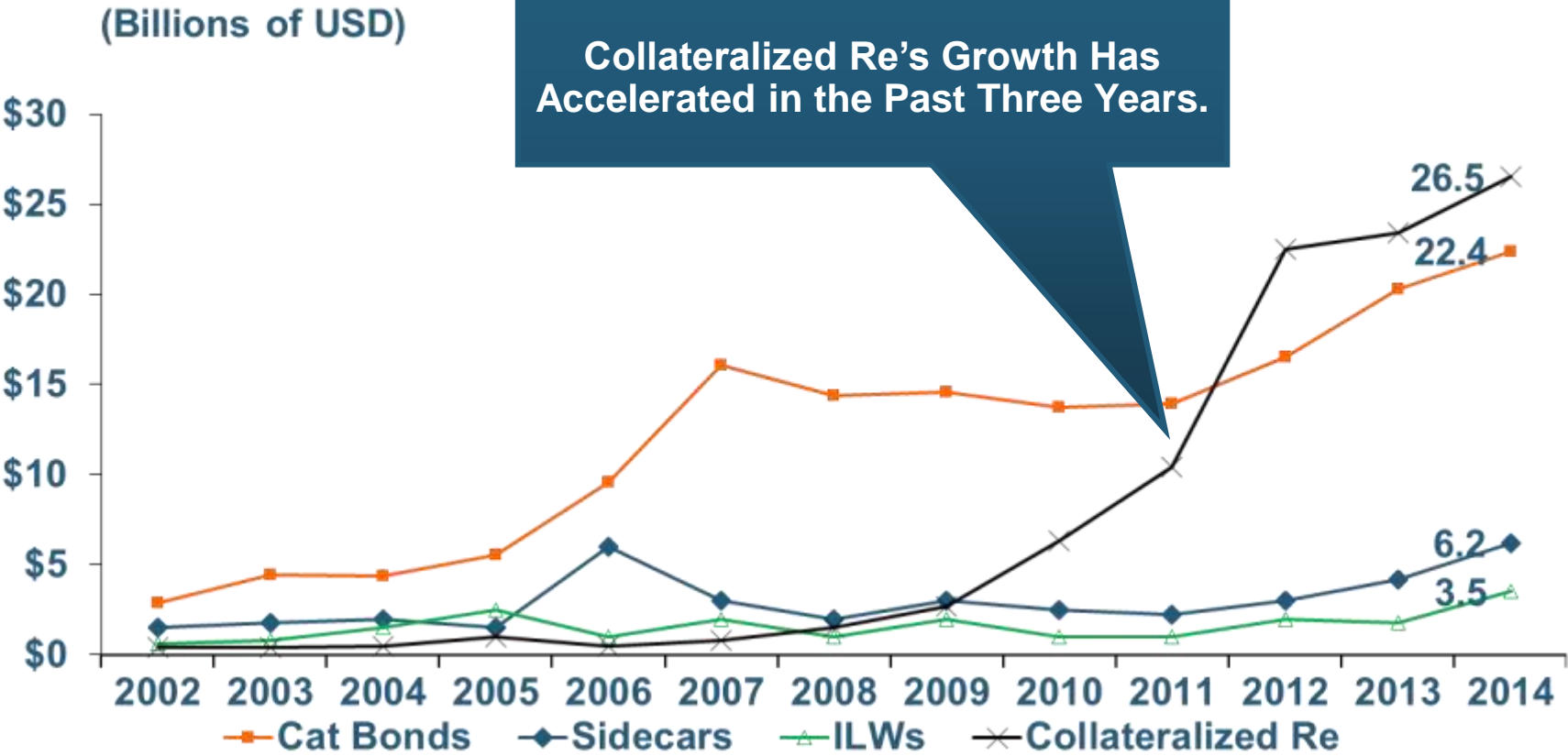


Alternative Capital's Share of Global Reinsurance Capital Has More Than Doubled Since 2010.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Growth of Alternative Capital Structures, 2002 - 2014

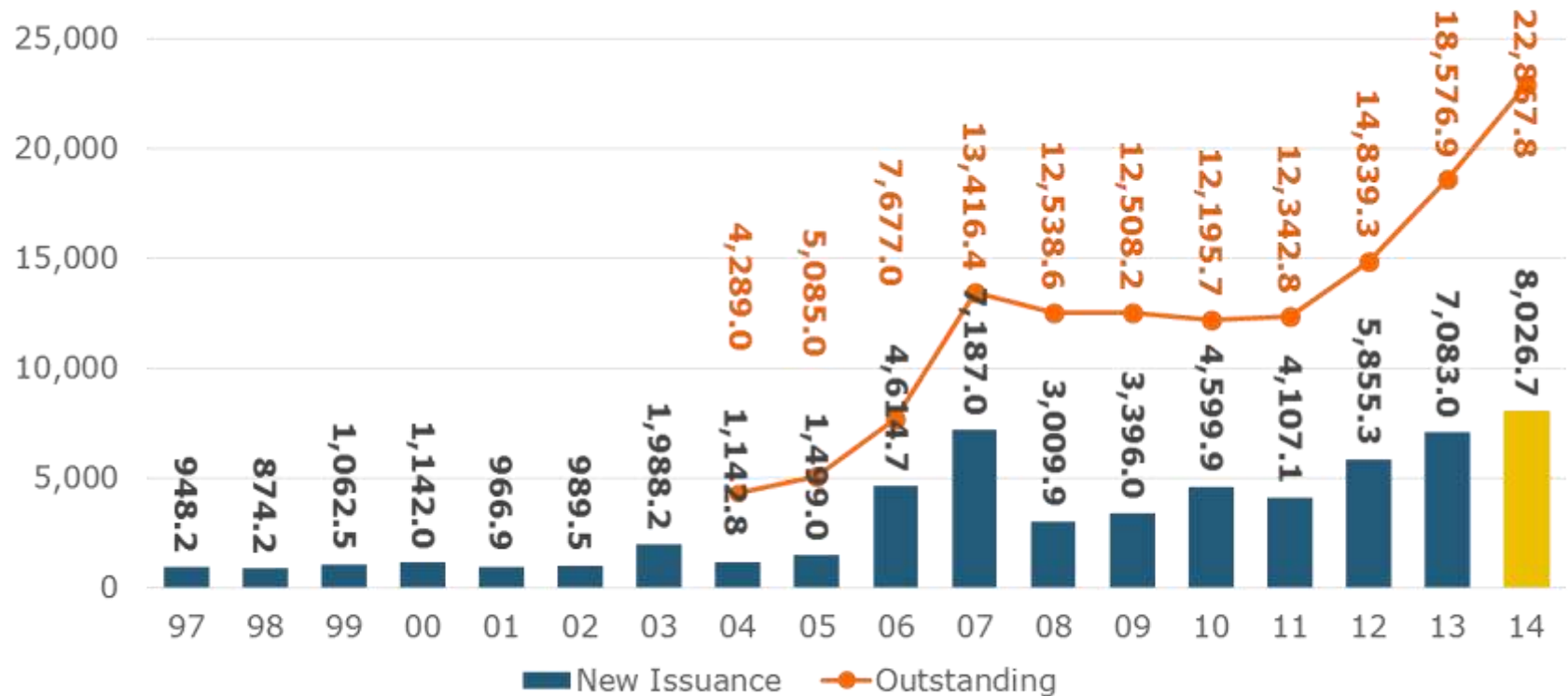


Collateralized Reinsurance and Catastrophe Bonds Currently Dominate the Alternative Capital Market.

2014 data is as of June 30, 2014.
 Source: Aon Benfield Analytics; Insurance Information Institute.

Catastrophe Bond Issuance and Outstanding: 1997-2014

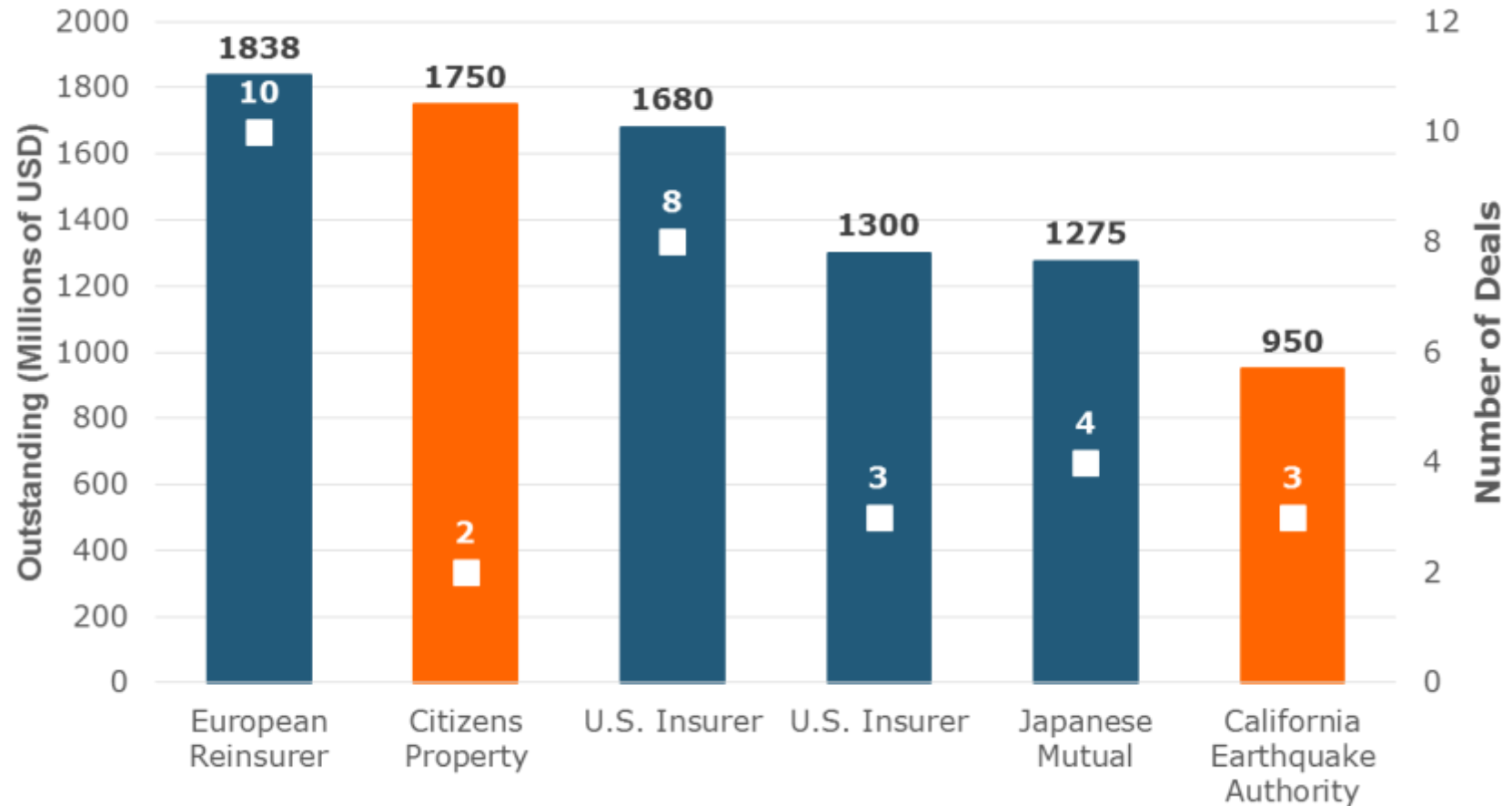
Risk Capital Amount (\$ Millions)



2014 Has Seen the Largest Cat Bond Ever - \$1.5 Billion (Florida Citizens). Bond Issuance Set a Record.

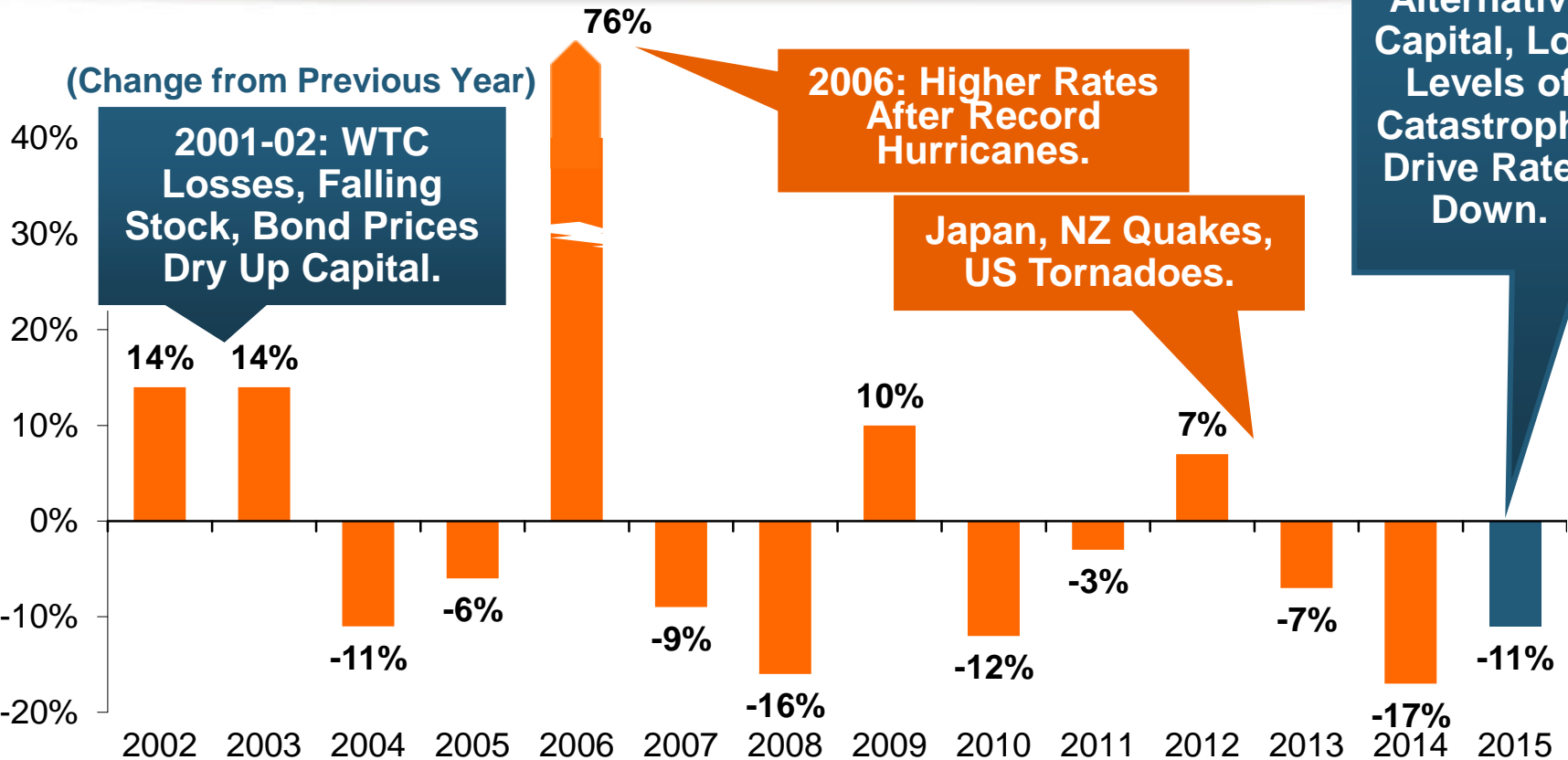
Source: Guy Carpenter.

Largest Sponsors of ILS, Year-End 2014



Two of the Largest ILS Issuers Are Government-Sponsored Insurers. Nine Government-Related Insurers Have \$4.6 Billion in Outstanding Securities.

Reinsurance Pricing: Change in Rate on Line for Cat Business

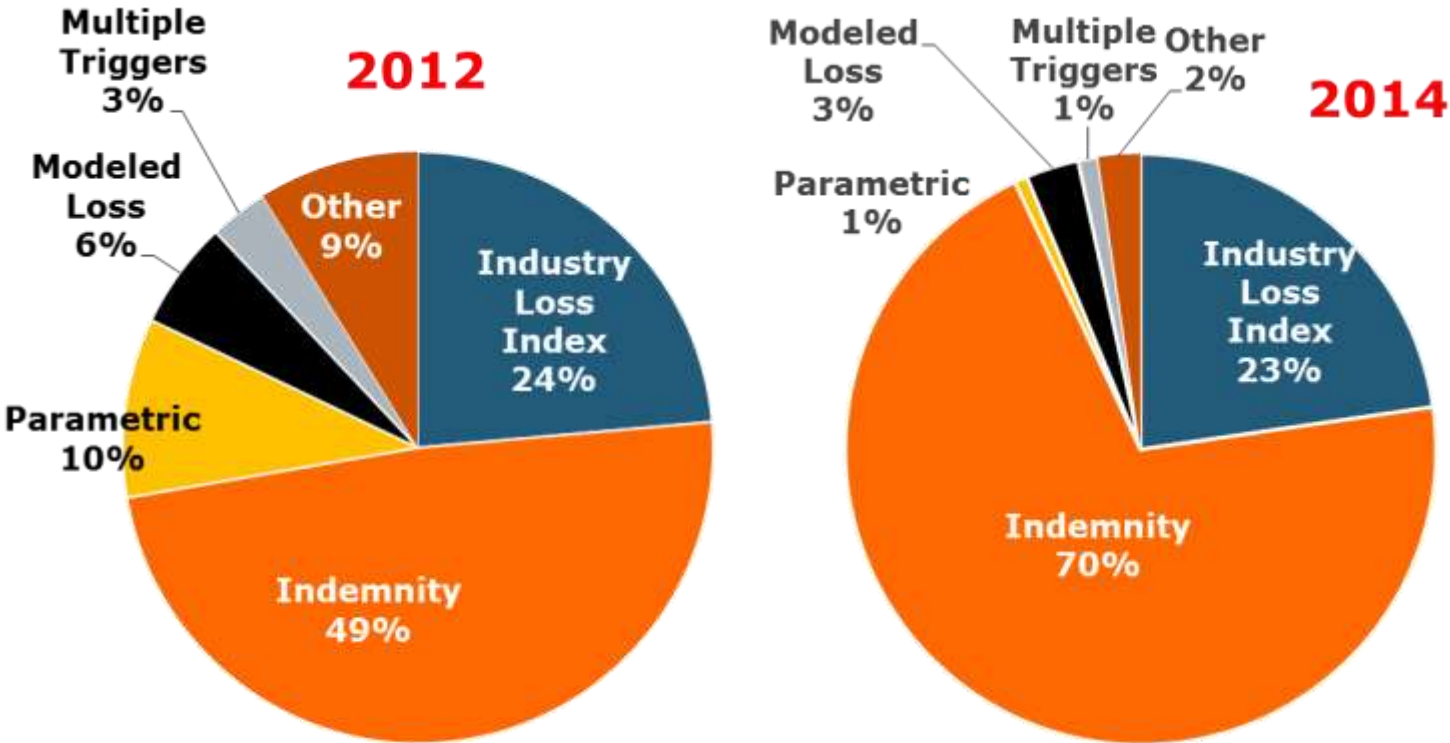


Catastrophe Prices Fell 11 Percent on January 1 Renewals, Driven by Emergence of New Capital, Mild Catastrophe Losses.

2014 reflects change through June 30 from prior year end. 2015 is for January 1 renewals..

Source: Guy Carpenter; Insurance Information Institute.

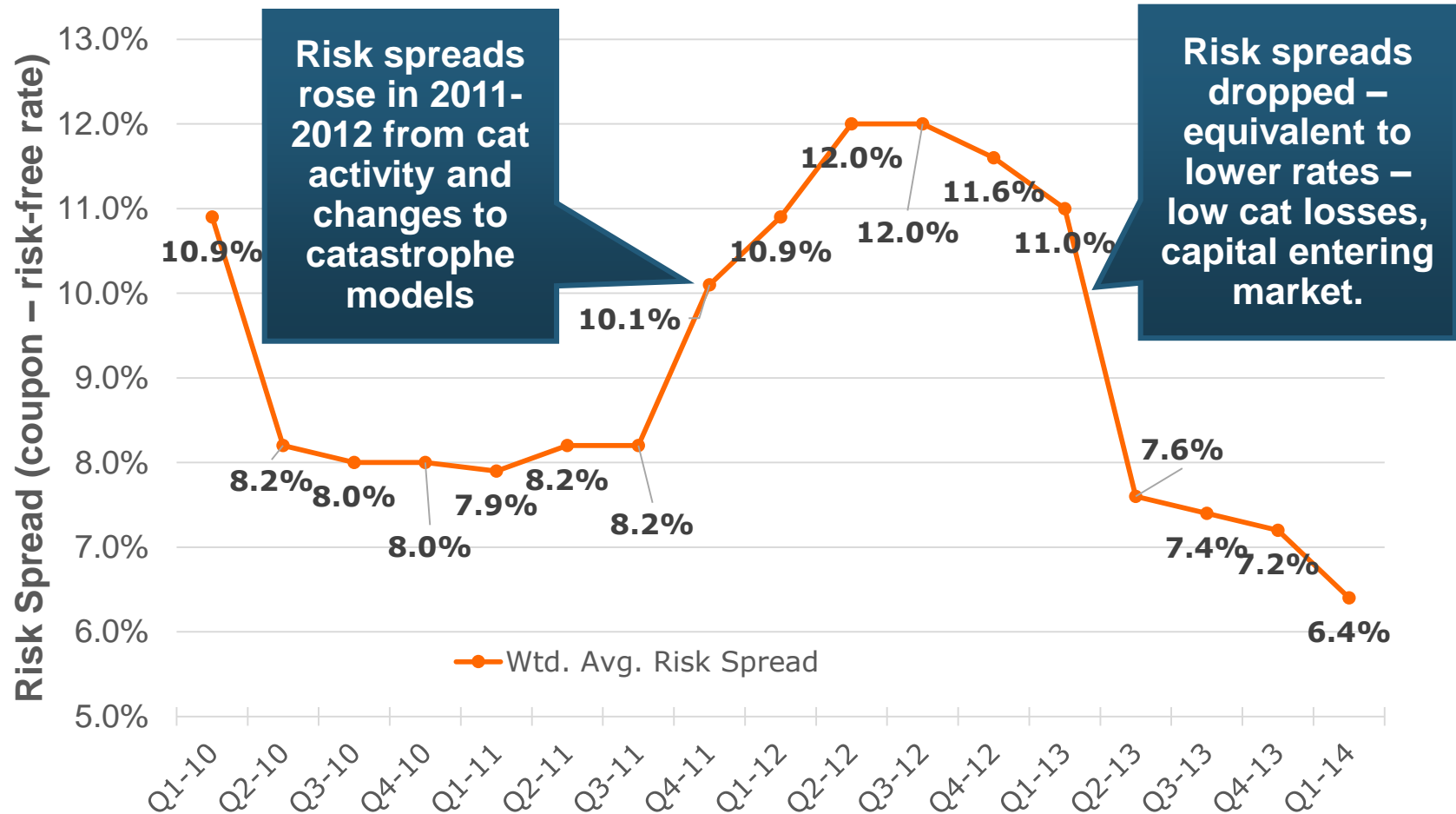
ILS Issuance by Trigger



Terms Are Shifting Away From ‘Objective’ Triggers (Favored by Investors) Toward Indemnity Trigger (Favored by Insurers).

Source: Artemis.bm; Insurance Information Institute.

U.S. Wind-Exposed Risk Premium* 2010:Q1 to 2014: Q1



* Trailing 12-month average

SOURCE: Willis Capital Markets, Insurance Information Institute.

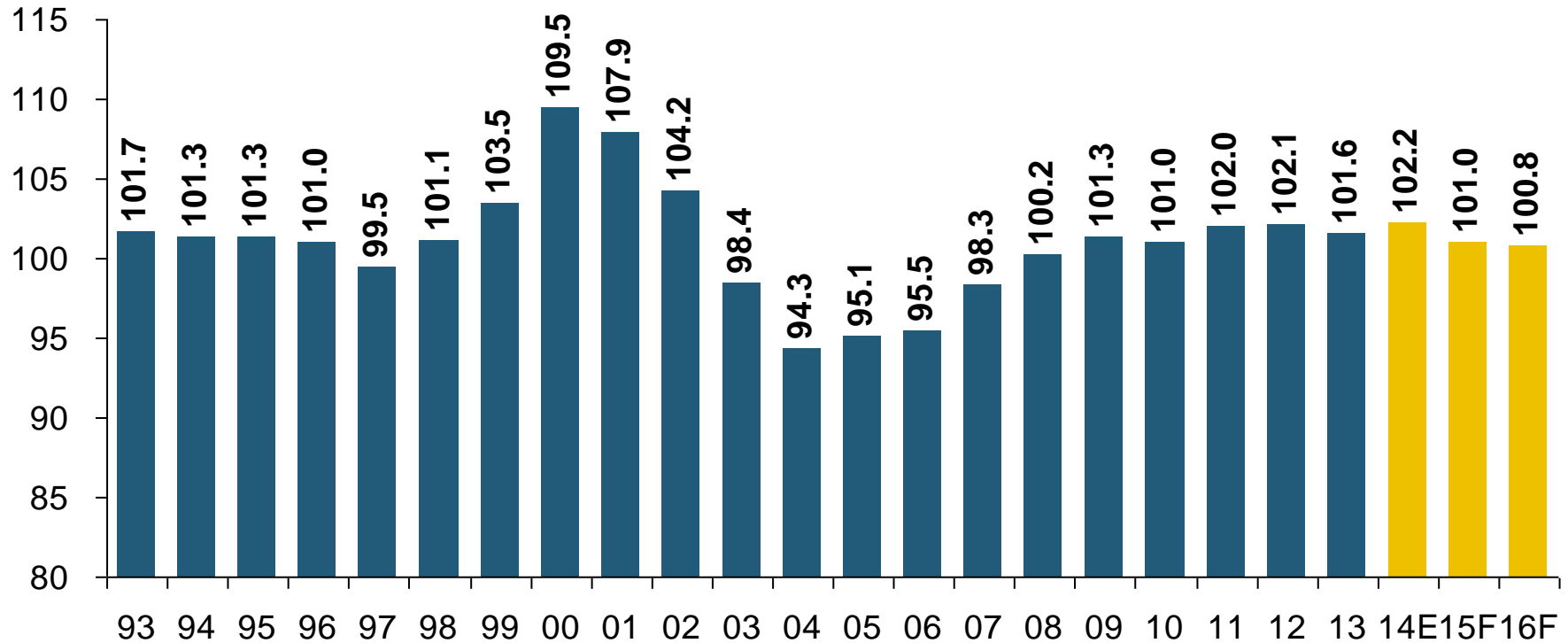
Questions Arising from Influence of Alternative Capital

- **What Will Happen When Investors Face Large-Scale Losses?**
- **What Happens When Interest Rates Rise?**
- **Does ILS Have a Higher Propensity to Litigate?**
- **How Much Lower Will Risk Premiums Shrink/ROIs Fall?**
- **Will There Be Spillover Into Casualty Reinsurance?**
- **Will Alternative Capital Drive Consolidation?**



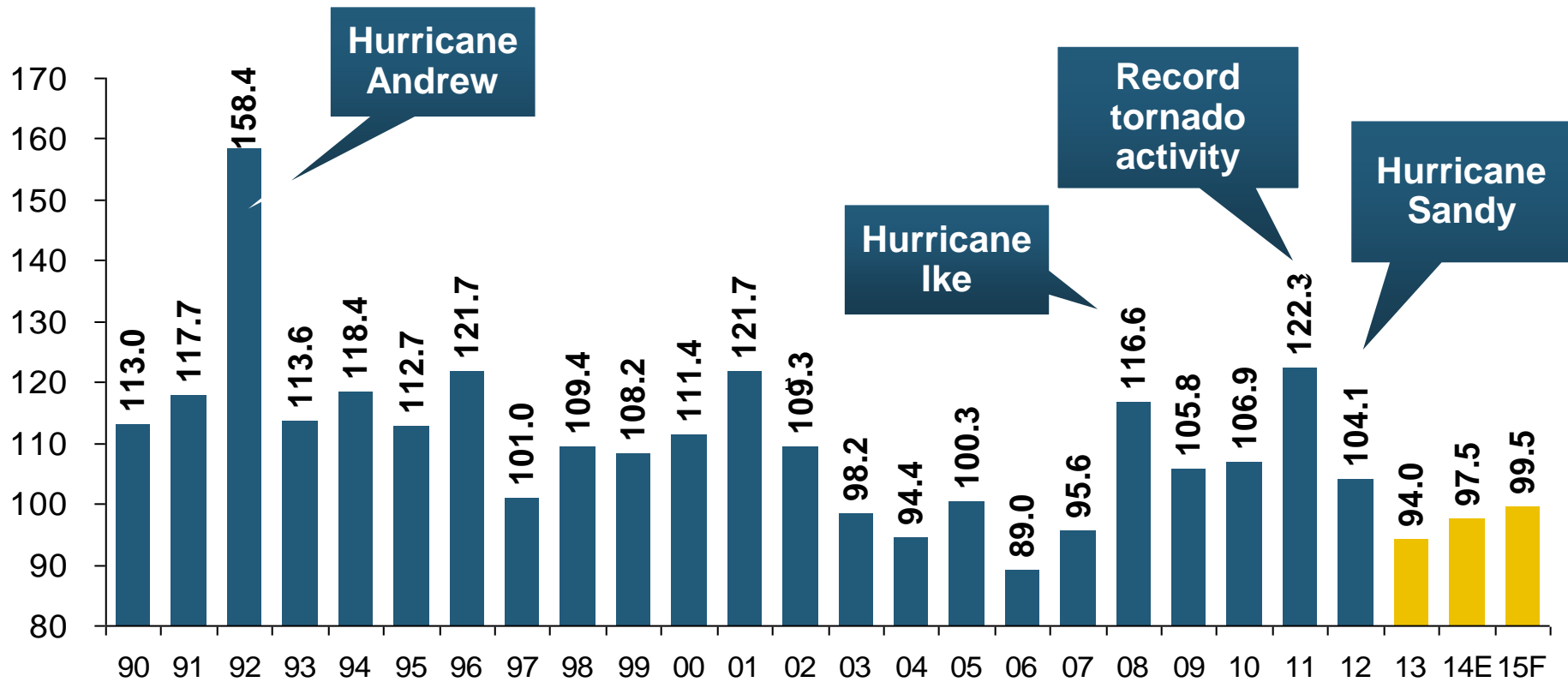
Performance by Segment

Private Passenger Auto Combined Ratio: 1993–2016F



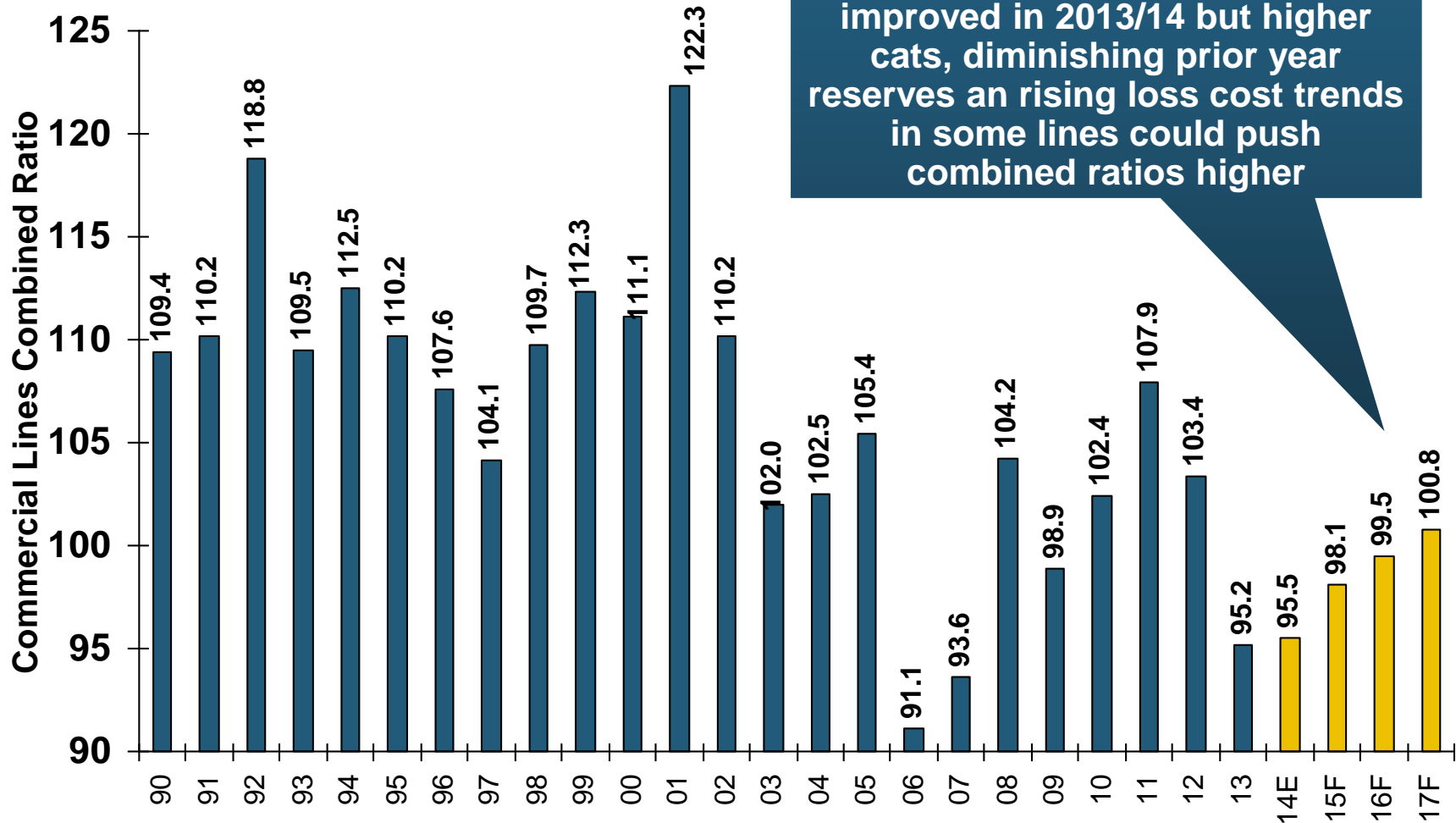
Private Passenger Auto Accounts for 37% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Homeowners Insurance Combined Ratio: 1990–2015F



Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Commercial Lines Combined Ratio, 1990-2017F*

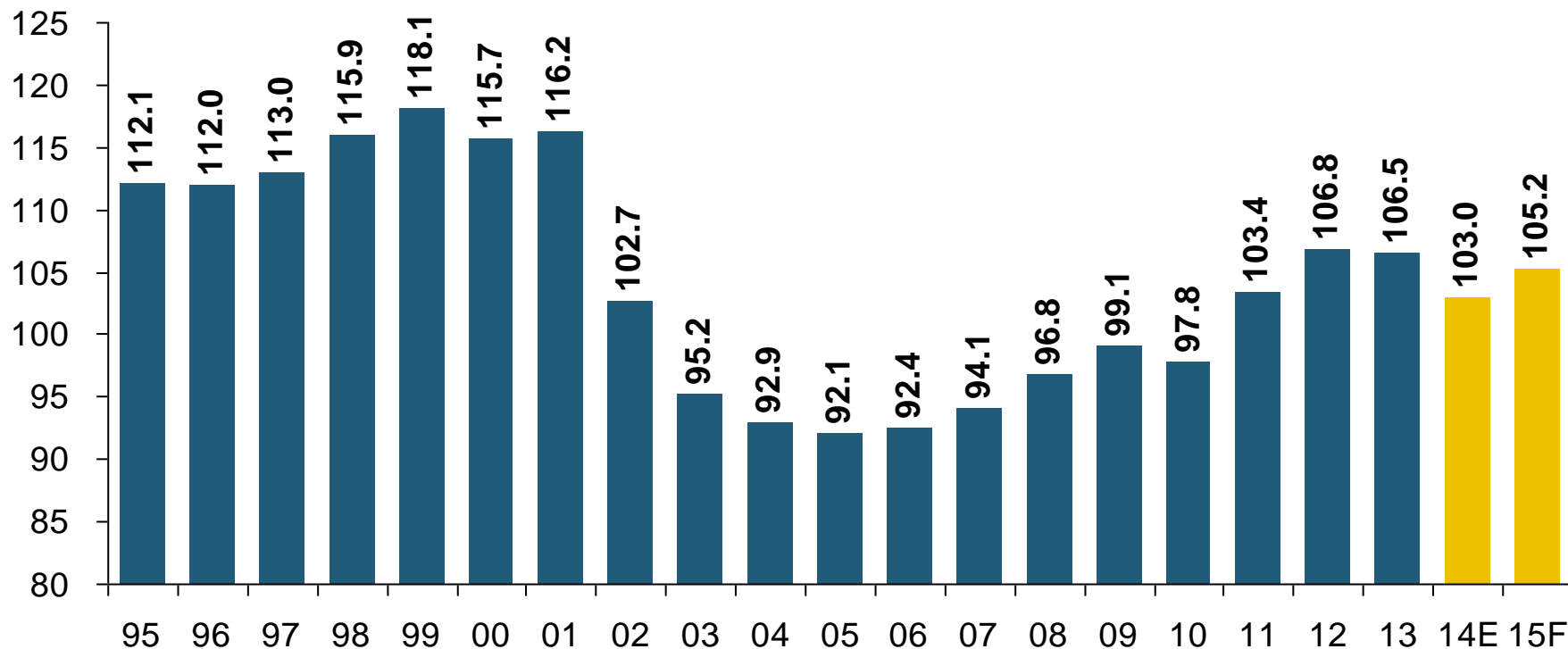


Commercial lines underwriting performance is expected to improved in 2013/14 but higher cats, diminishing prior year reserves an rising loss cost trends in some lines could push combined ratios higher

*2007-2012 figures exclude mortgage and financial guaranty segments.

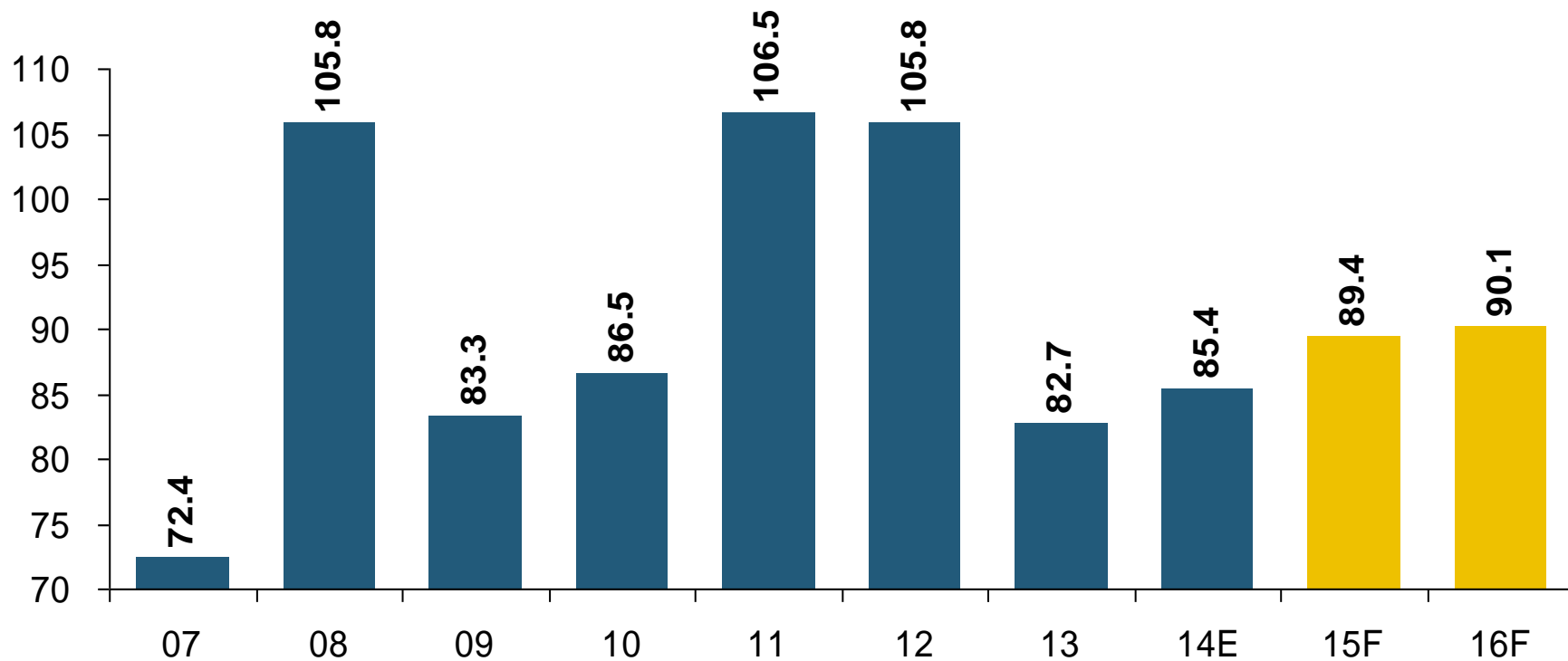
Source: A.M. Best (1990-2014E); Conning (2015-17F) Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2015F



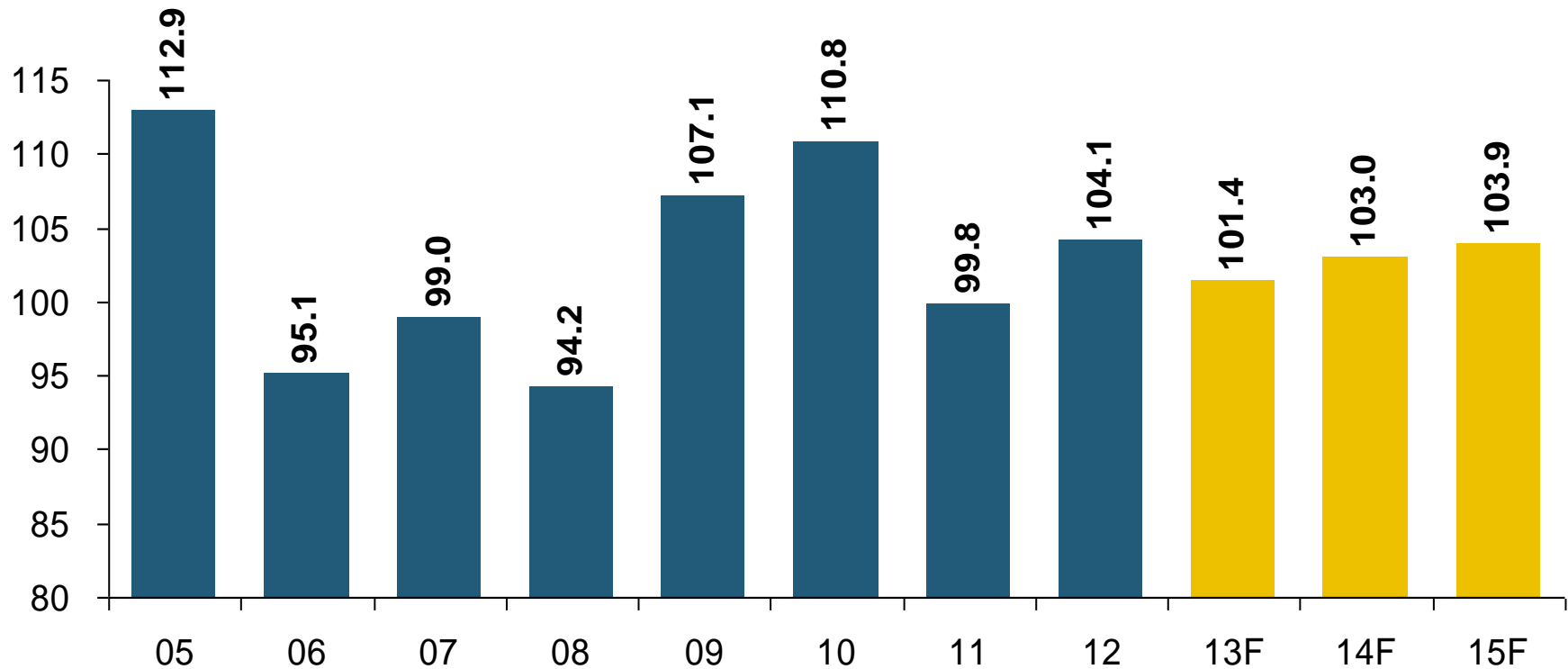
Commercial Auto is Expected to Improve Only Slowly as Rate Gains Barely Offset Adverse Frequency and Severity Trends

Commercial Property Combined Ratio: 2007–2016F



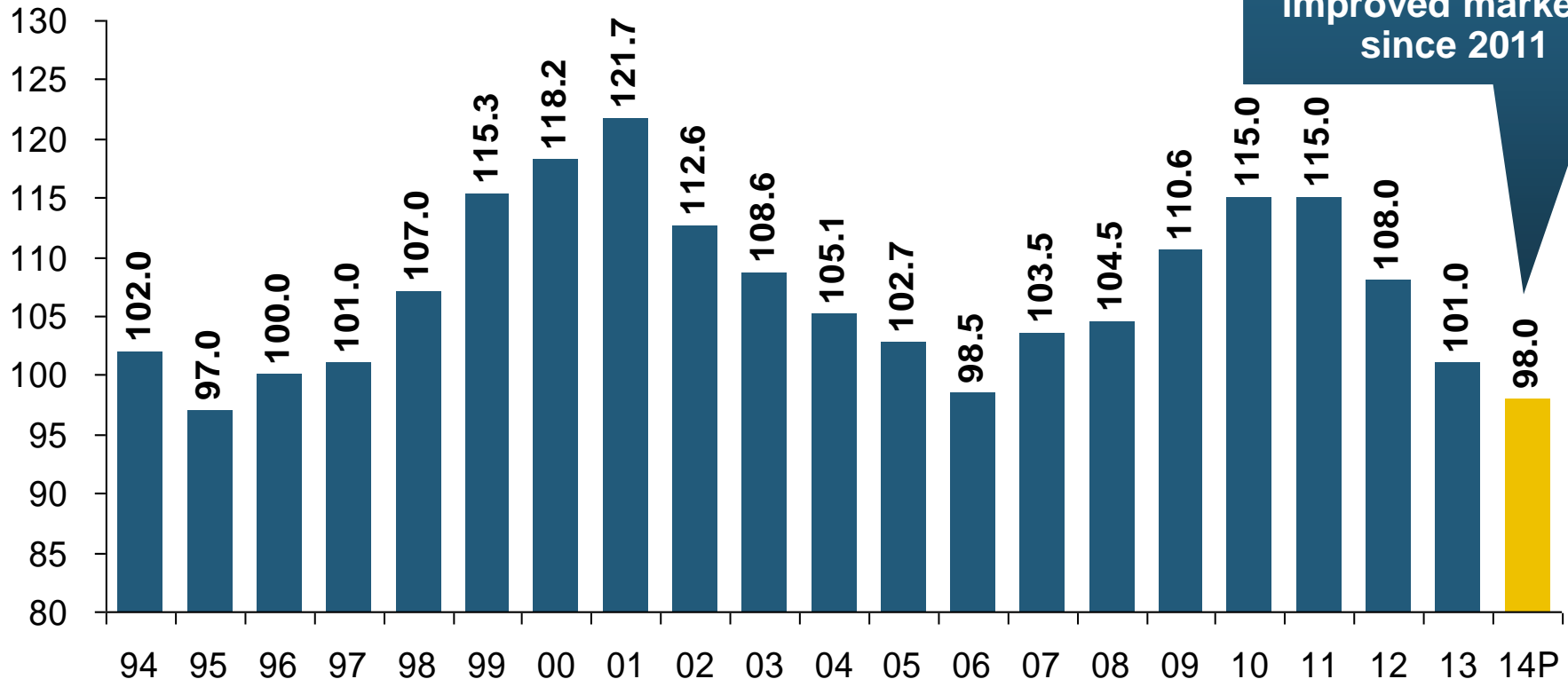
Commercial Property Underwriting Performance Has Been Volatile in Recent Years, Largely Due to Fluctuations in CAT Activity

General Liability Combined Ratio: 2005–2015F



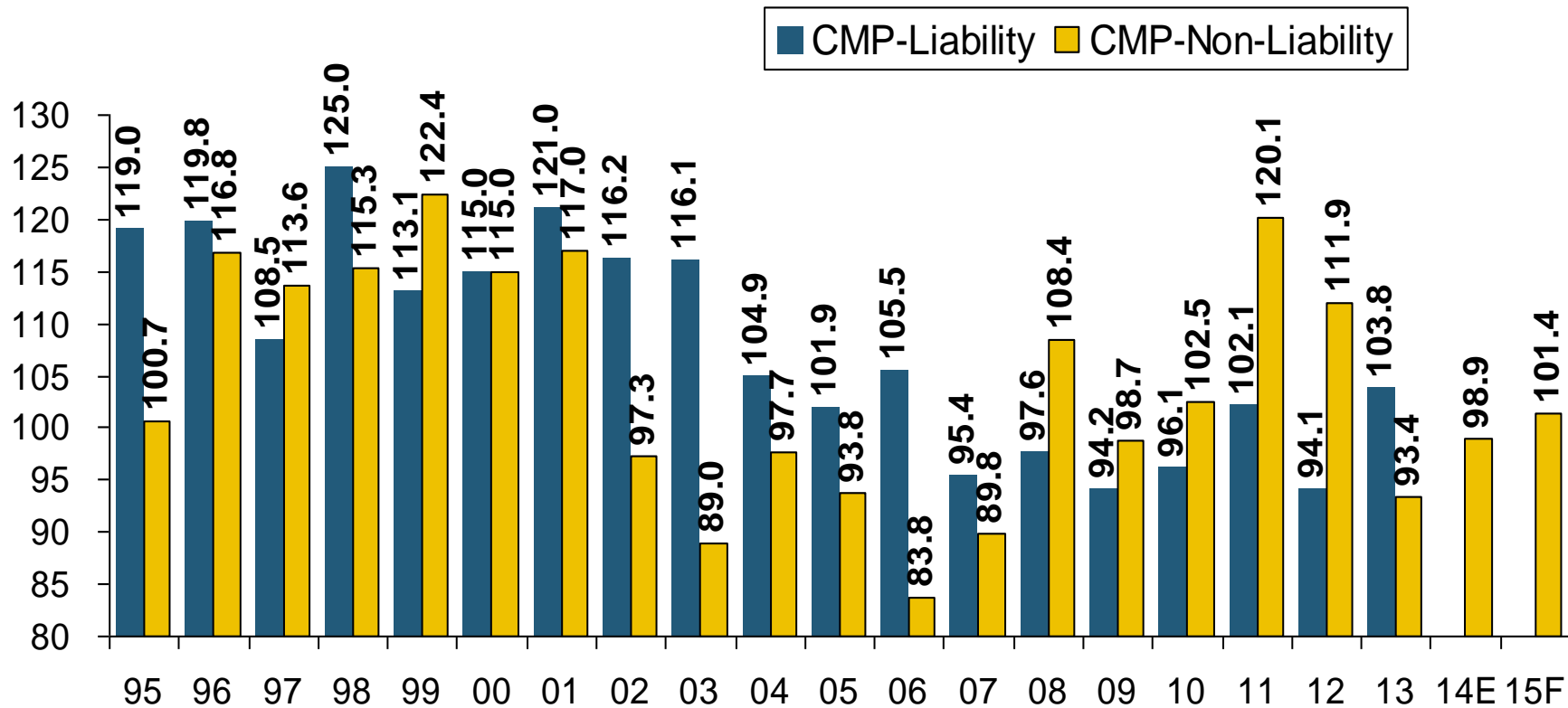
**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

Workers Compensation Combined Ratio: 1994–2014P



Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

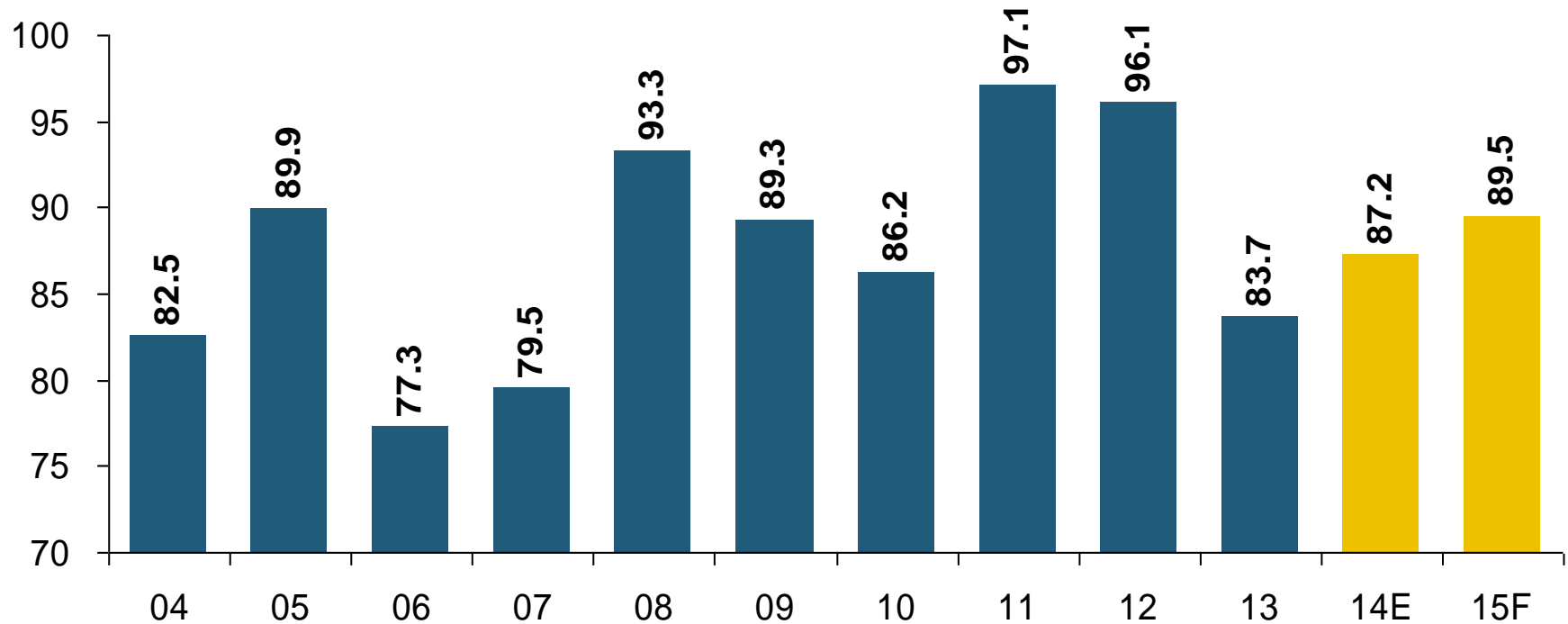
Commercial Multi-Peril Combined Ratio: 1995–2015F



Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

*2014E-2015F figures are Conning figures for the combined liability and non-liability components.
Sources: A.M. Best; Conning; Insurance Information Institute.

Inland Marine Combined Ratio: 2004–2015F



**Inland Marine Underwriting Performance Has Been
Consistently Strong for Many Years**

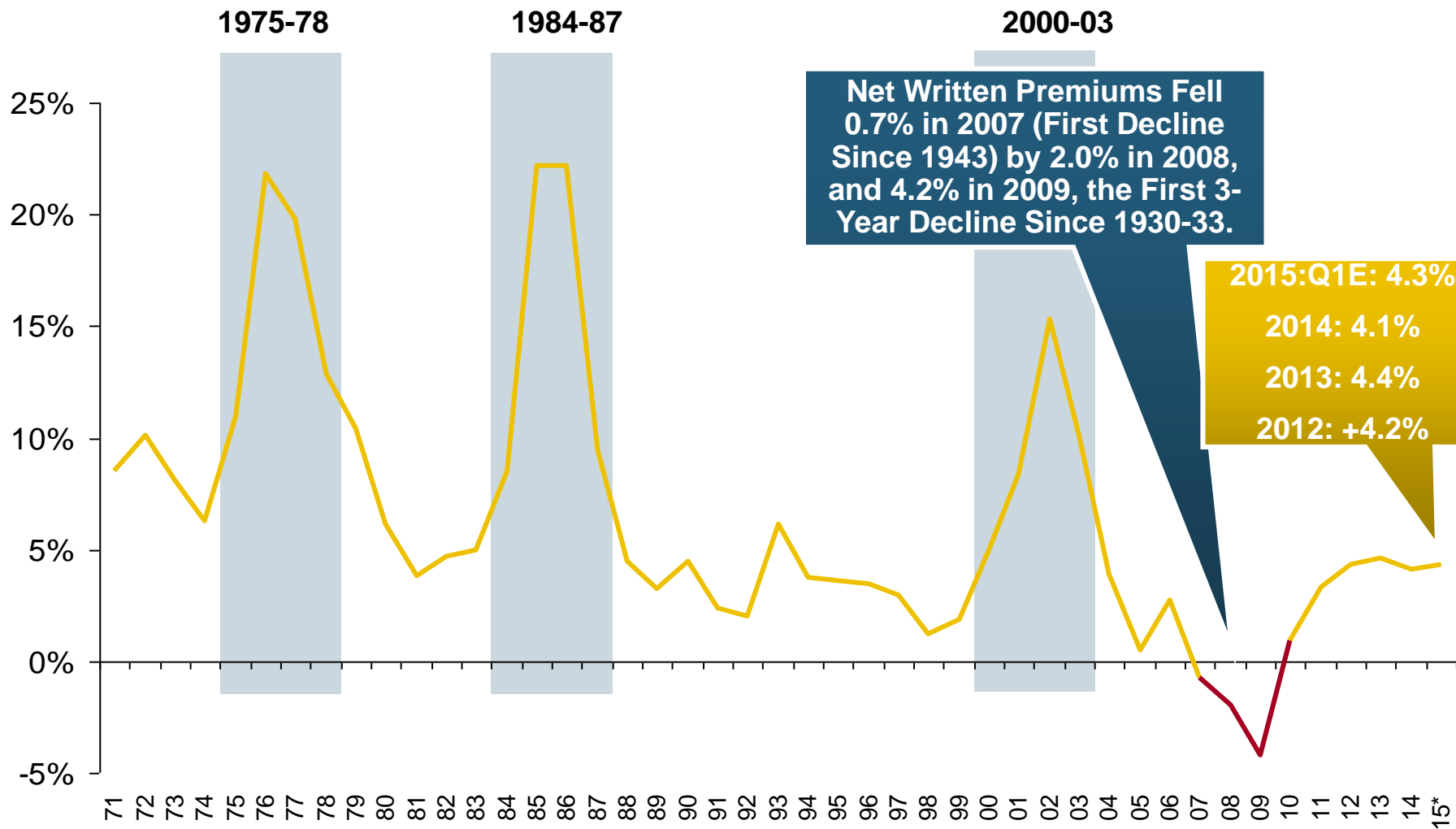
Growth Analysis by State and Business Segment

Post-Crisis Paradox?

***Premium Growth Rates Vary
Tremendously by State***

Net Premium Growth (All P/C Lines): Annual Change, 1971—2015:Q1

(Percent)

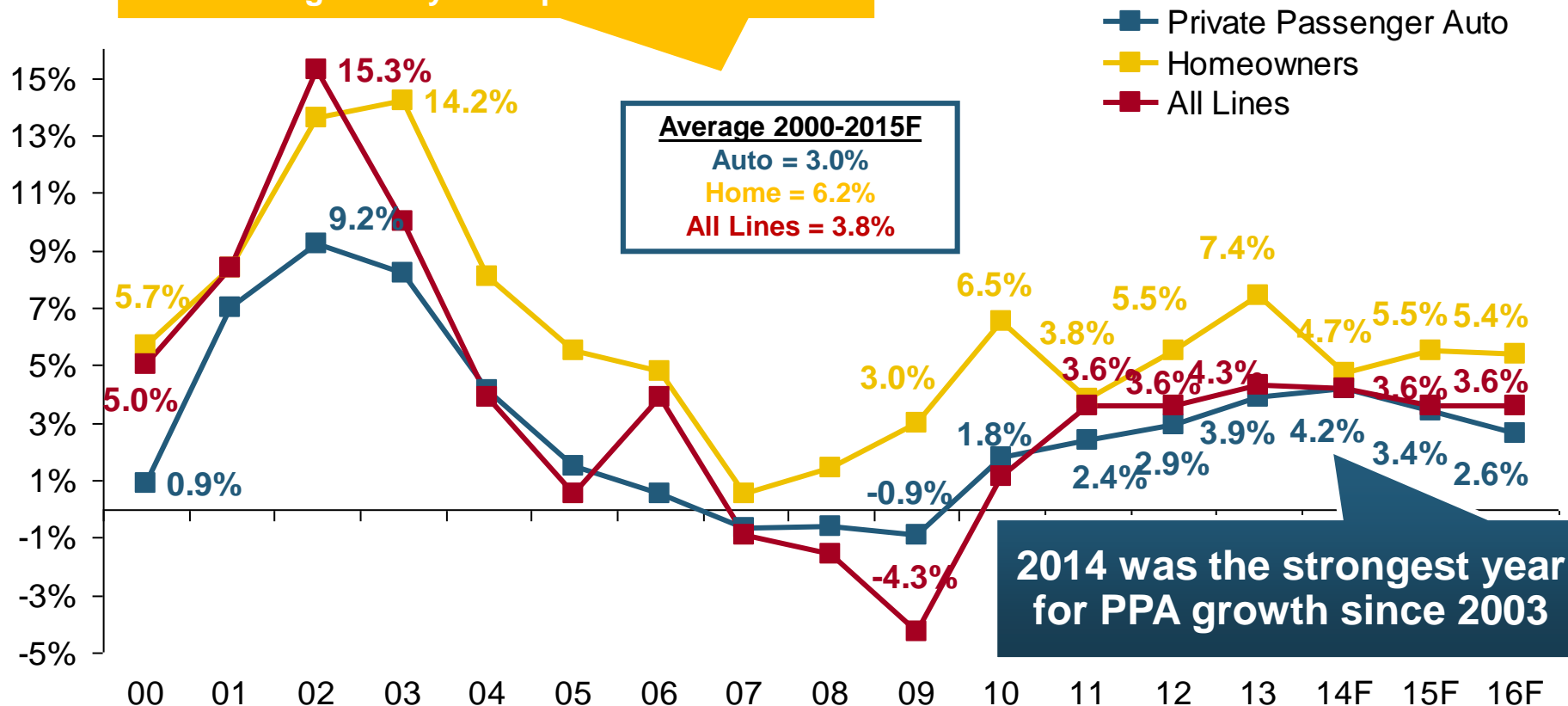


Shaded areas denote "hard market" periods

Sources: A.M. Best (1971-2013), ISO (2014), Insurance Information Institute (2015:Q1 estimate from SNL data).

Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2016F

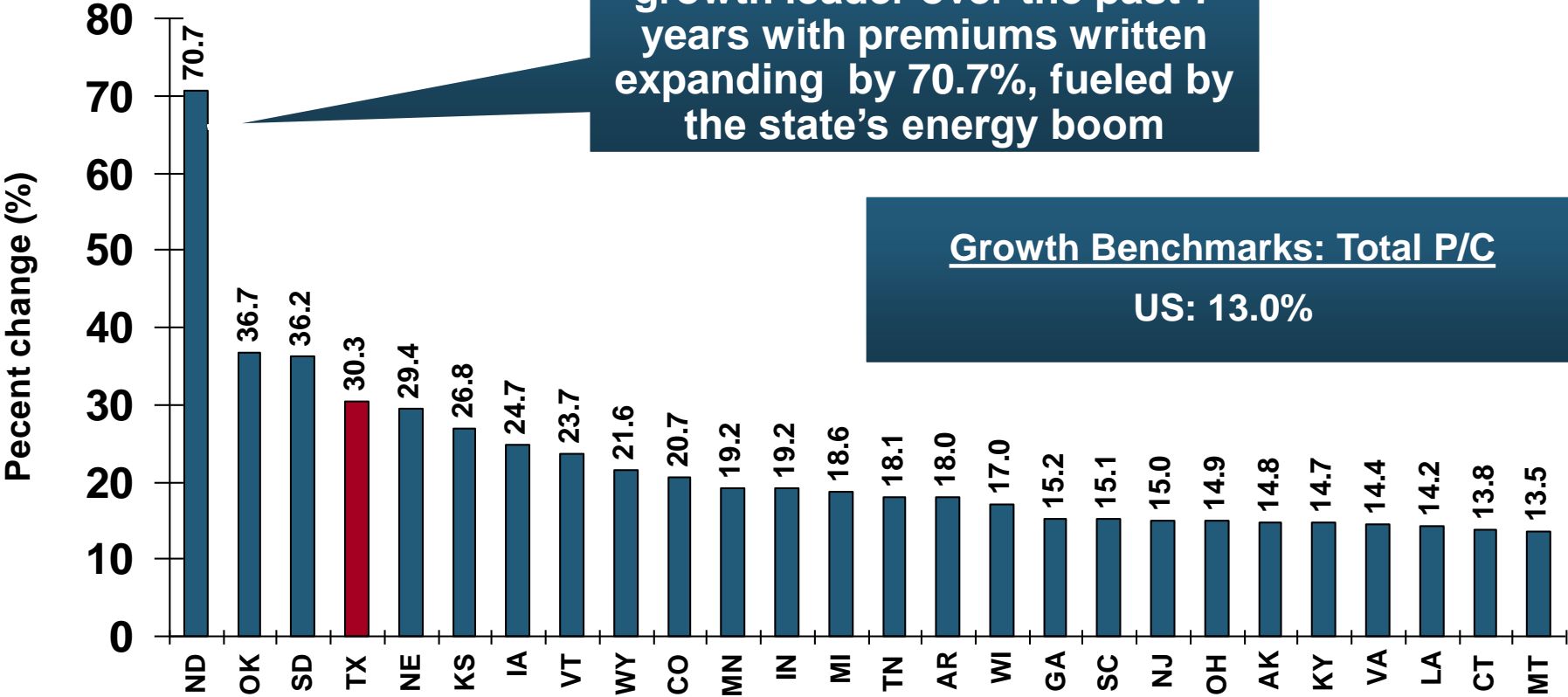
While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable



Direct Premiums Written: Total P/C Percent Change by State, 2007-2014

Top 25 States

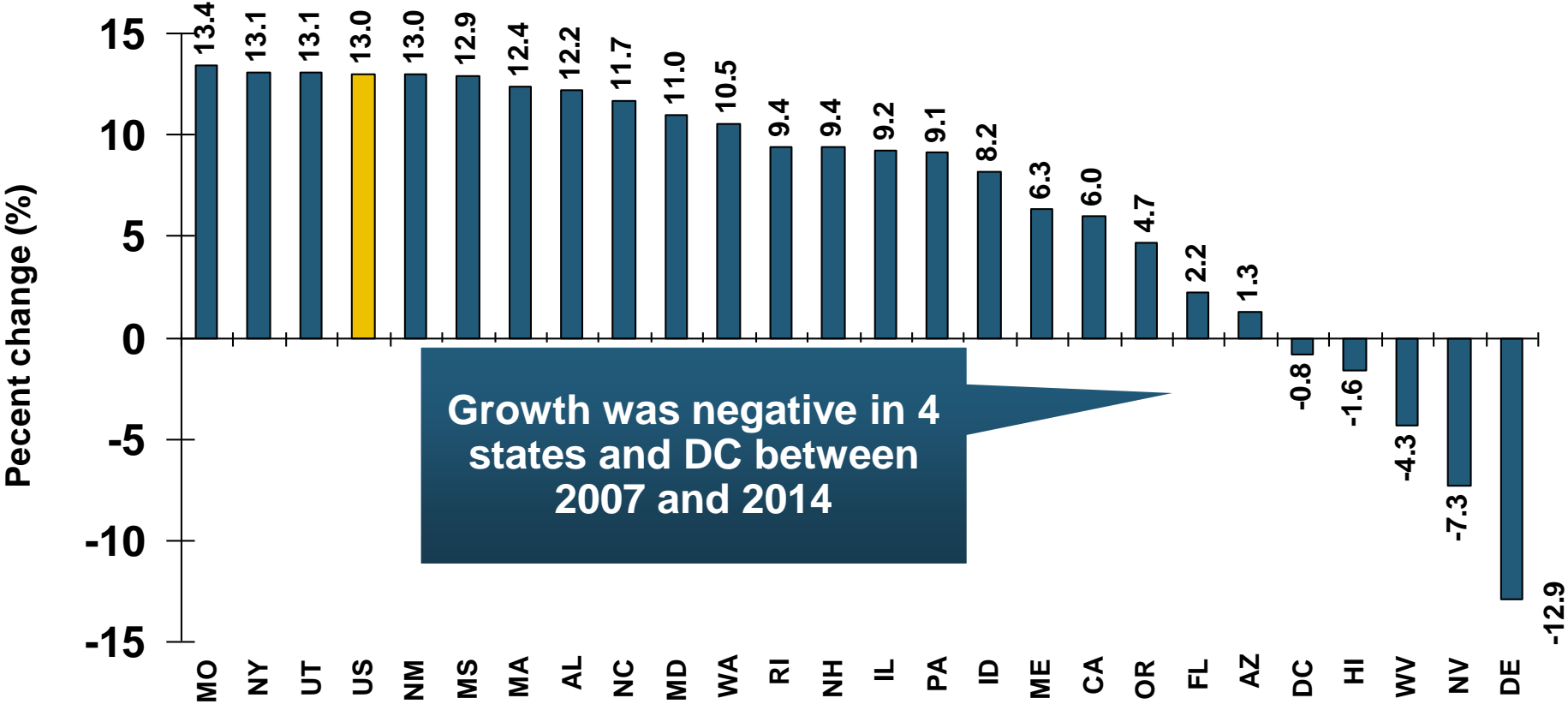
North Dakota was the country's growth leader over the past 7 years with premiums written expanding by 70.7%, fueled by the state's energy boom



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Total P/C Percent Change by State, 2007-2014

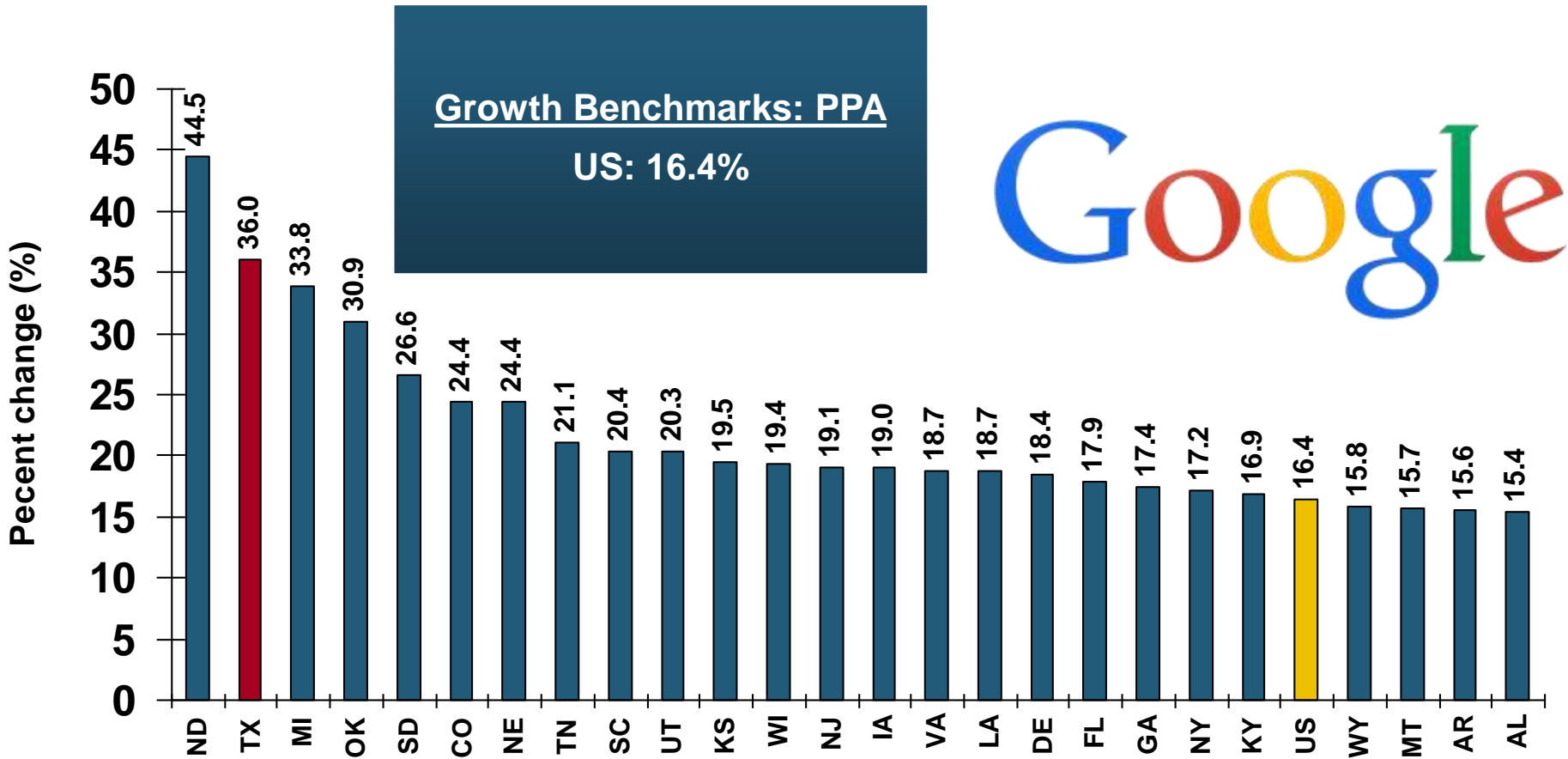
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

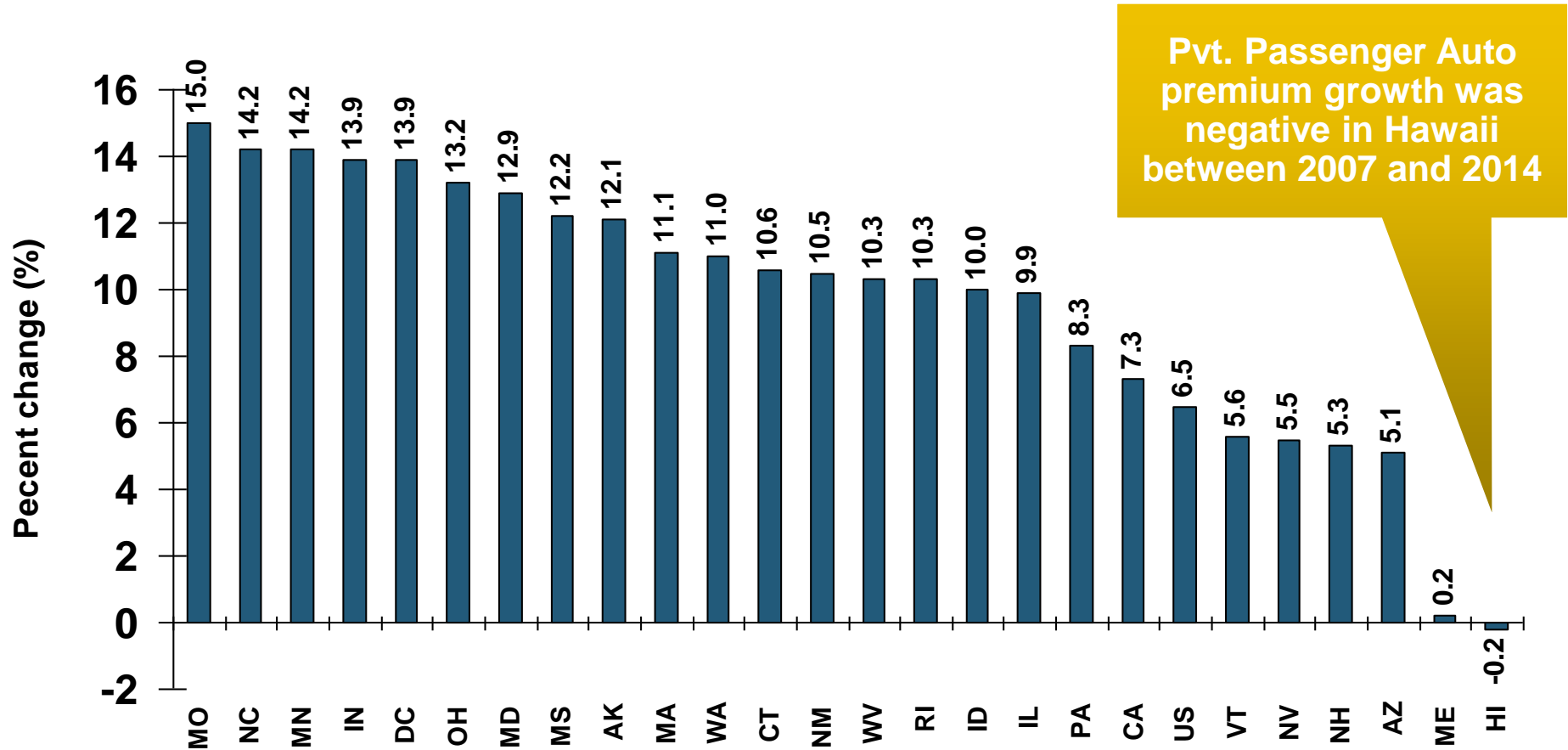
Direct Premiums Written: PP Auto Percent Change by State, 2007-2014

Top 25 States

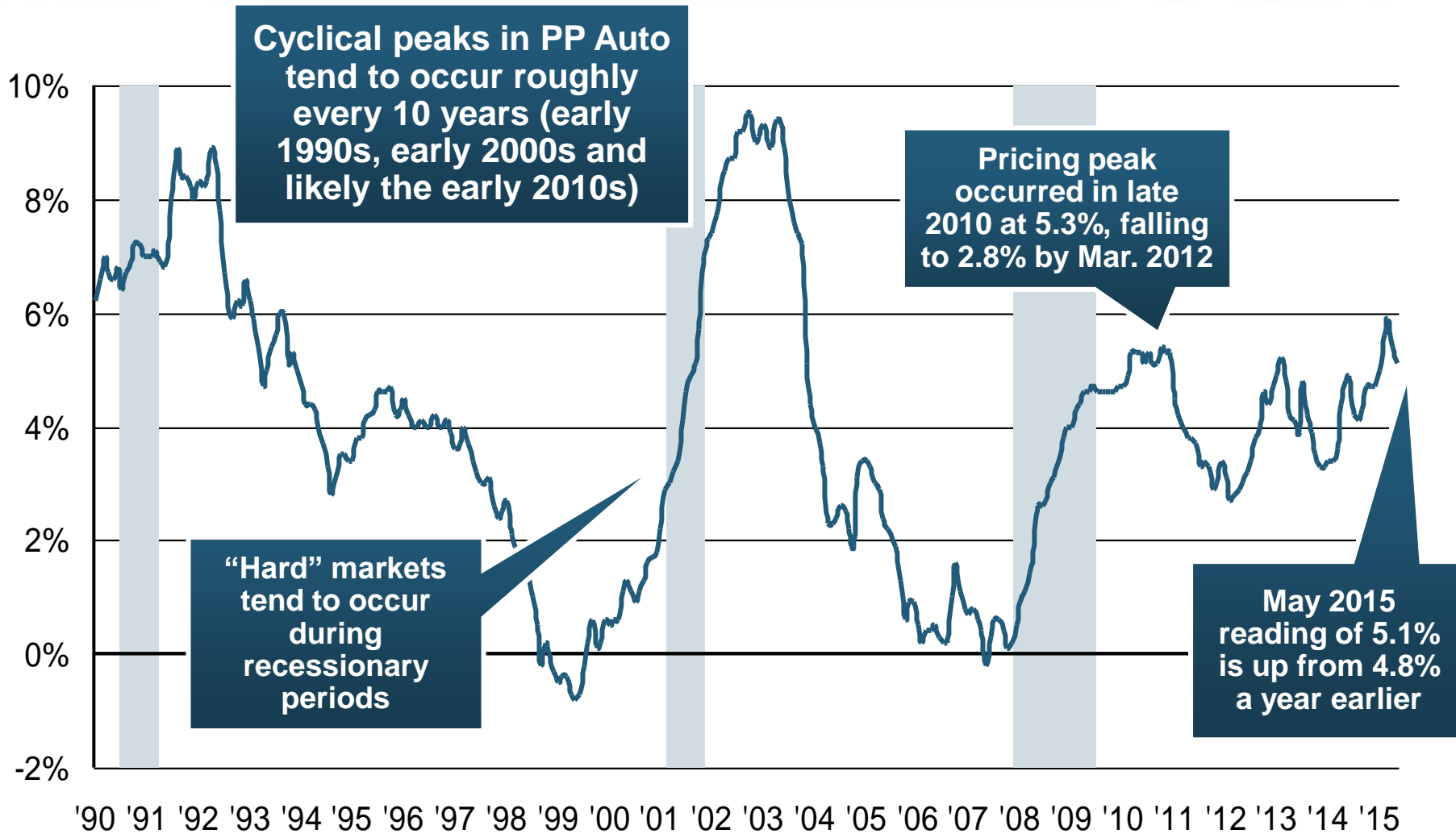


Direct Premiums Written: PP Auto Percent Change by State, 2007-2014

Bottom 25 States



Monthly Change in Auto Insurance Prices, 1991–2015*



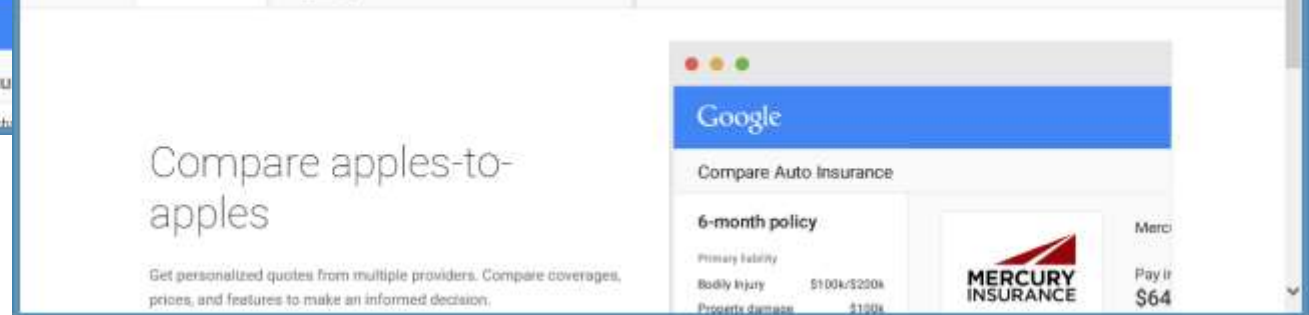
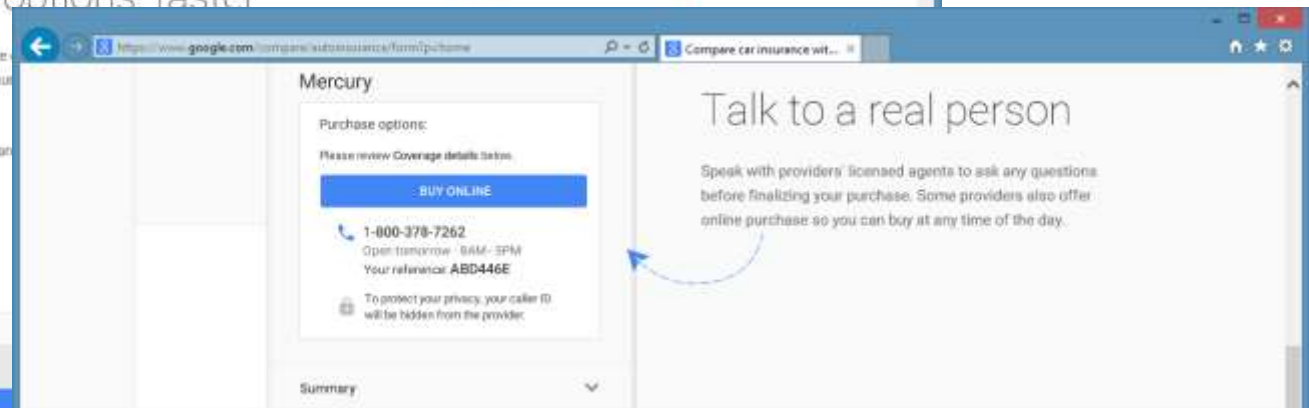
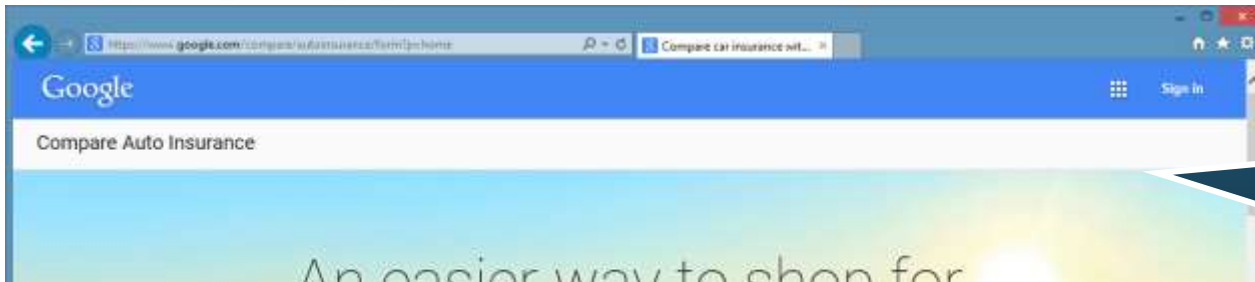
*Percentage change from same month in prior year; through May 2015; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

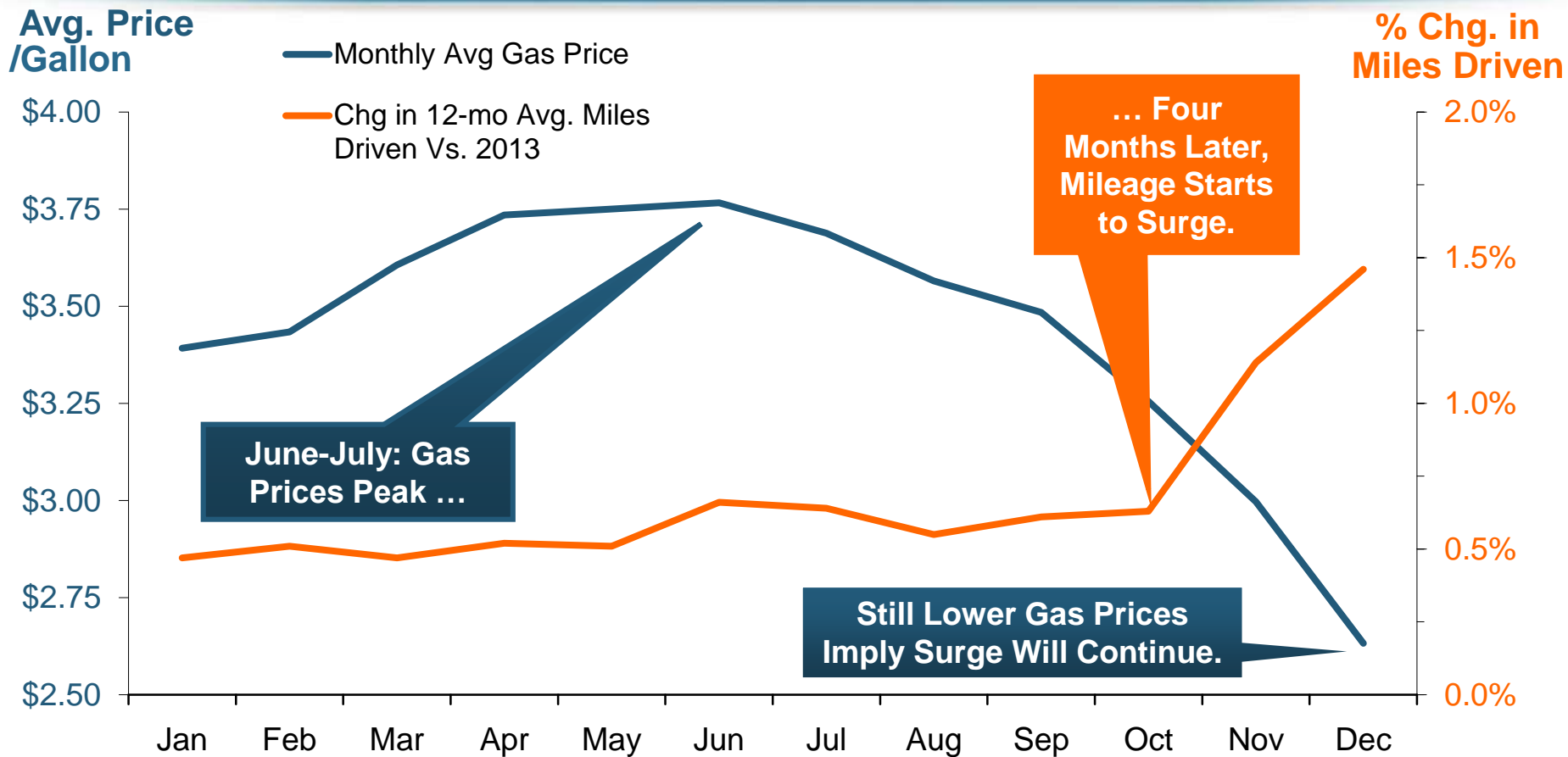
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Google: Should Insurers Be Concerned?

Google Compare launched in California on March 5 and sent ripples through PPA market



Do Changes in Gas Prices Affect Miles Driven? A Look at 2014

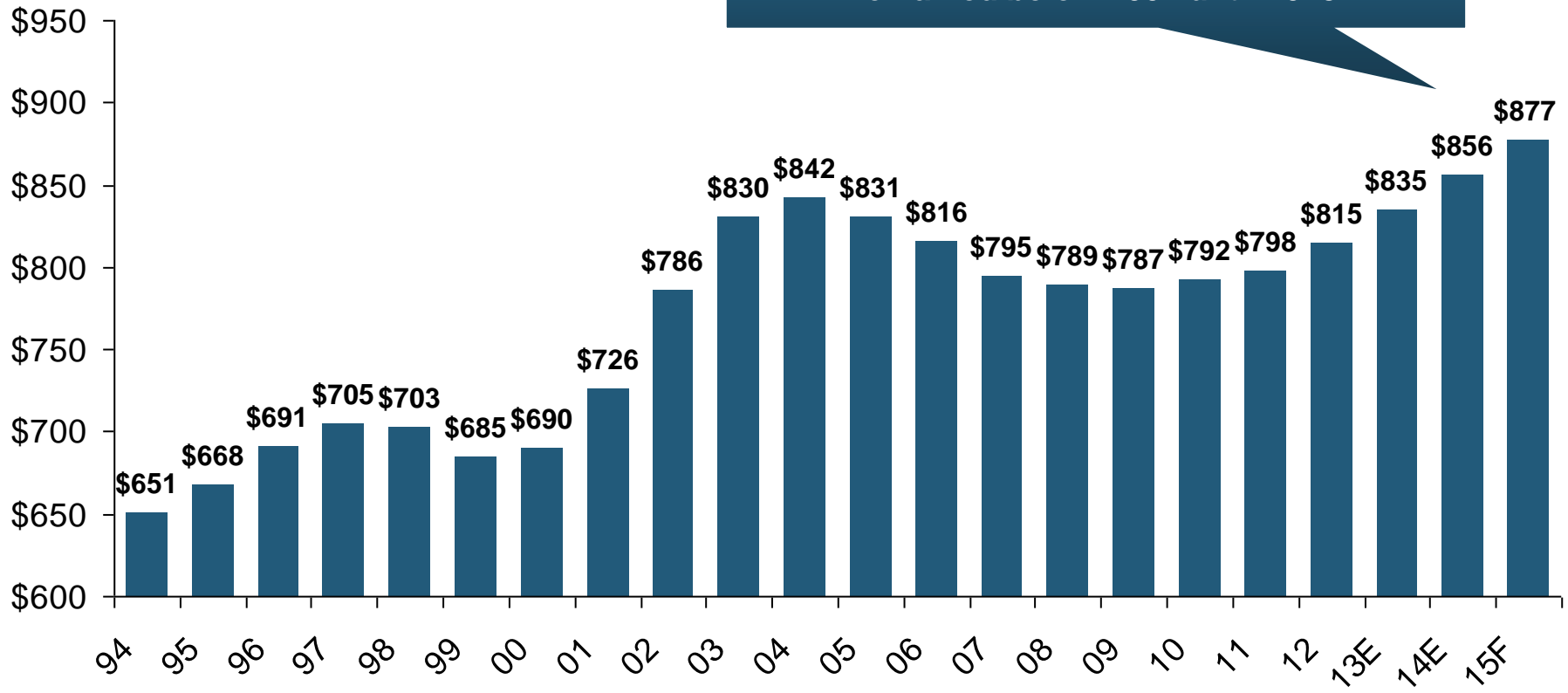


Prior research on the relationship between gas prices and miles driven says that, in the short run, an increase in gas prices produces little change in miles driven. No recent research on the effect of price drops.

Sources: Federal Energy Administration (<http://www.eia.gov/petroleum/gasdiesel/>); *gas prices and miles driven through December
 Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>); I.I.I.

Average Expenditures on Auto Insurance

The average expenditure on auto insurance remained below 2004 until 2013

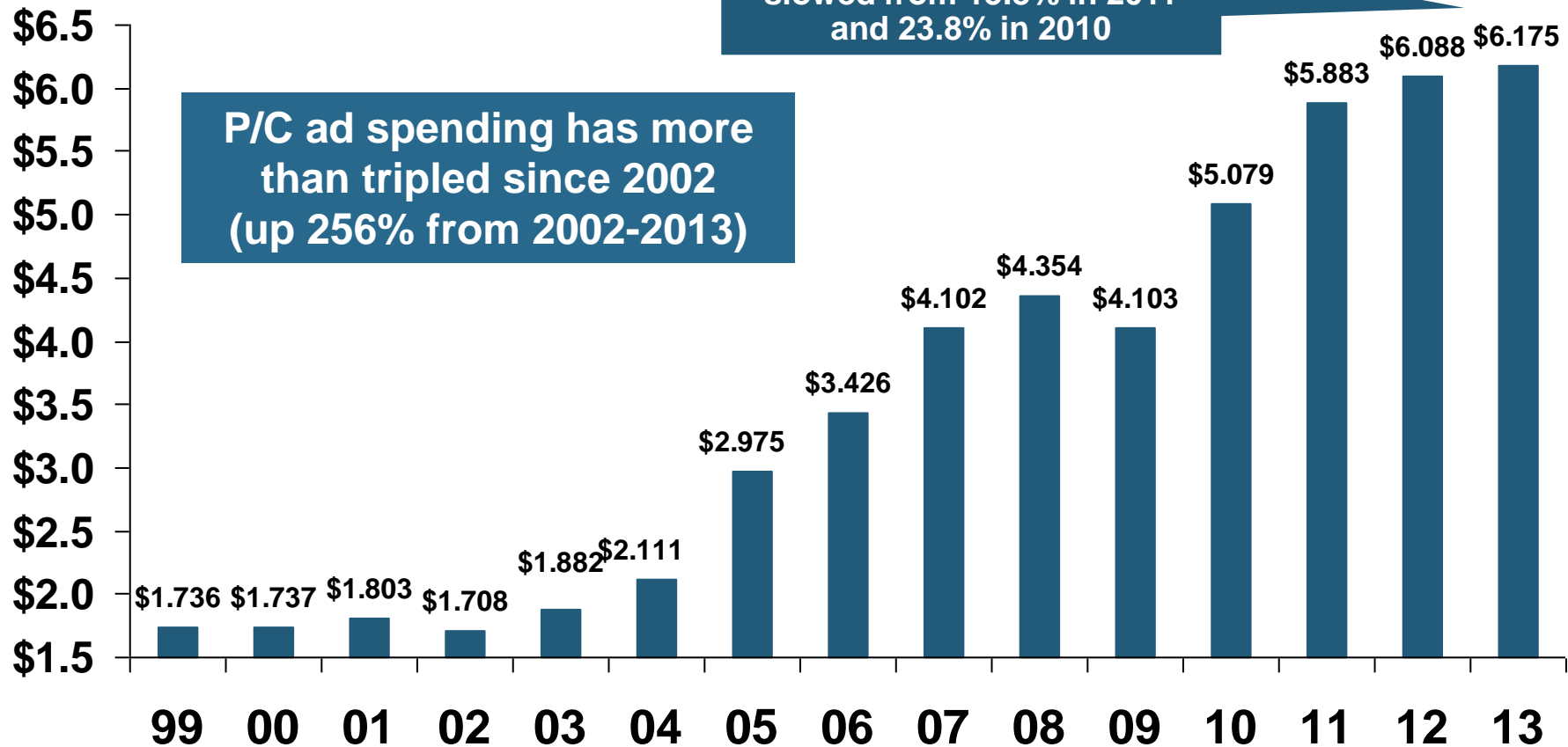


Countrywide Auto Insurance Expenditures decreased by 6.5% from 2004 through 2009, rising gradually since the with annual increases in the 2.0% to 2.5% range

* Insurance Information Institute Estimates/Forecasts
 Source: NAIC, Insurance Information Institute estimate for 2013-2015 based on CPI and other data.

Advertising Expenditures by P/C Insurance Industry, 1999-2013

\$ Billions

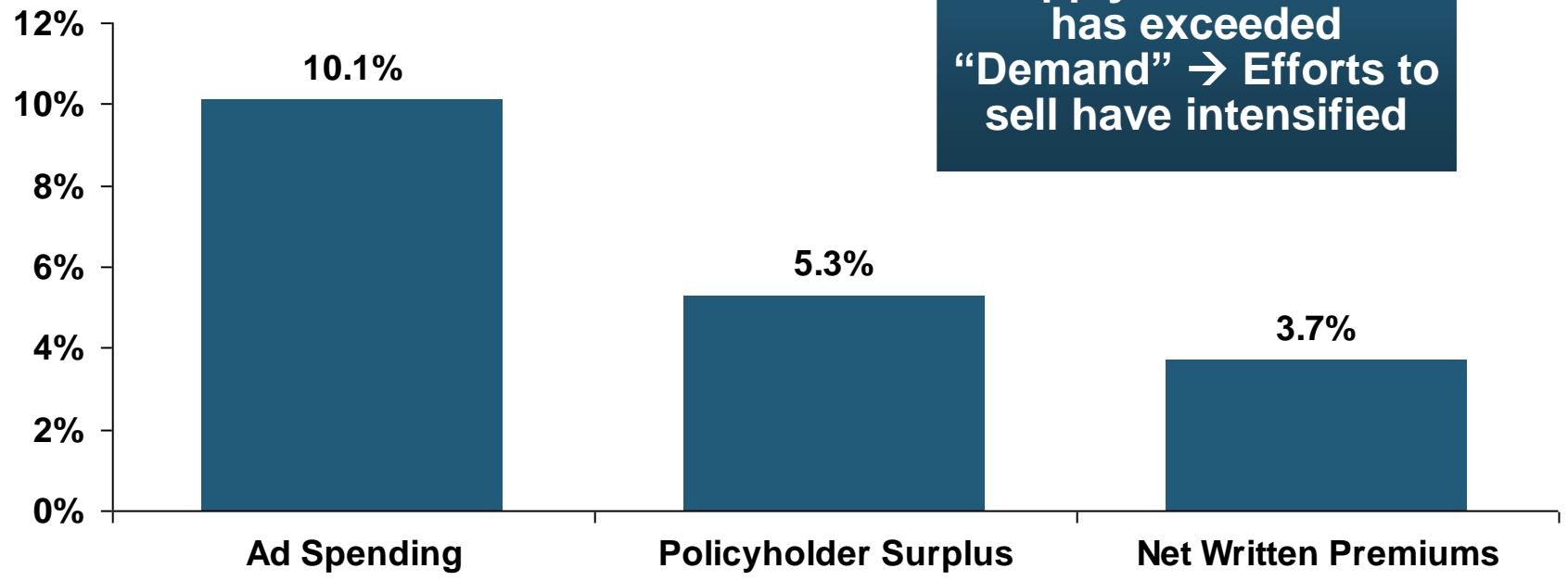


P/C ad spending has more than tripled since 2002 (up 256% from 2002-2013)

P/C ad spend hit an all time record high of \$6.175 billion in 2013, up 1.5% over 2012. The pace of growth has slowed from 15.8% in 2011 and 23.8% in 2010

Growth in Premiums, Capacity vs. Growth in Advertising Expenditures, 2000 – 2013

Average Annual Percent Change (%)



Growth in the “Supply” of insurance has exceeded “Demand” → Efforts to sell have intensified

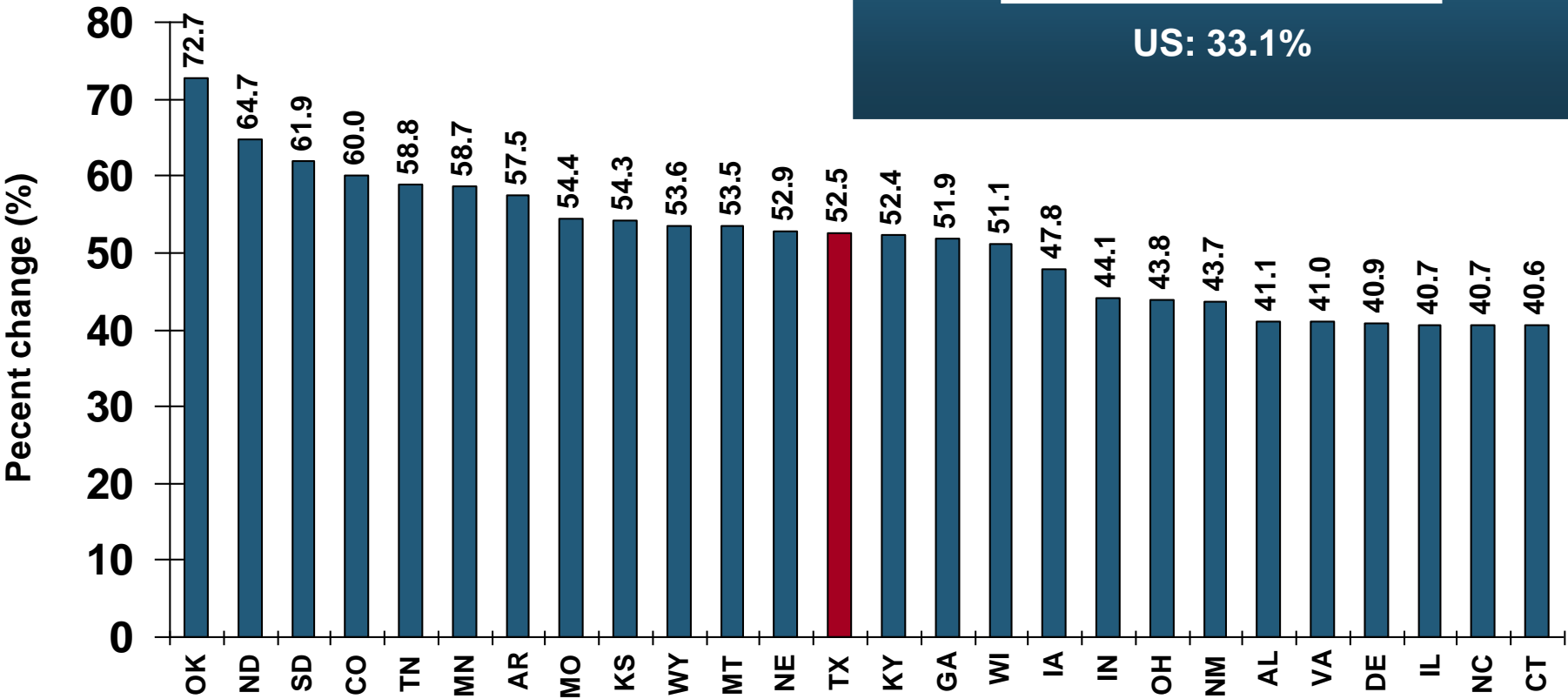
Overall Growth in Ad Spending has greatly exceeded growth in capacity (policyholder surplus) or premium growth. This suggests that there are diminishing returns to advertising.

Sources: Insurance Information Institute analysis from A.M. Best data.

Direct Premiums Written: Homeowners Percent Change by State, 2007-2014

Top 25 States

Growth Benchmarks: HO
US: 33.1%

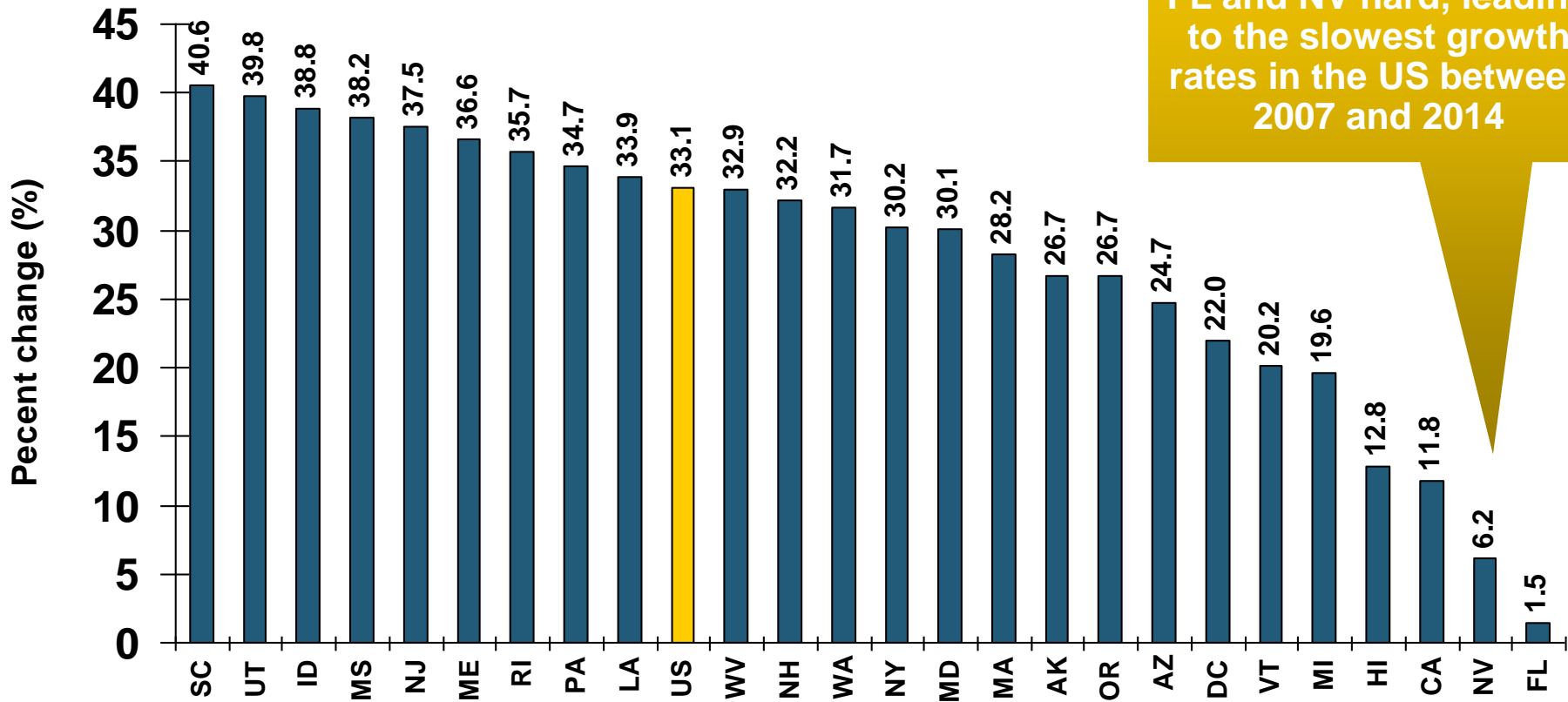


Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Homeowners Percent Change by State, 2007-2014

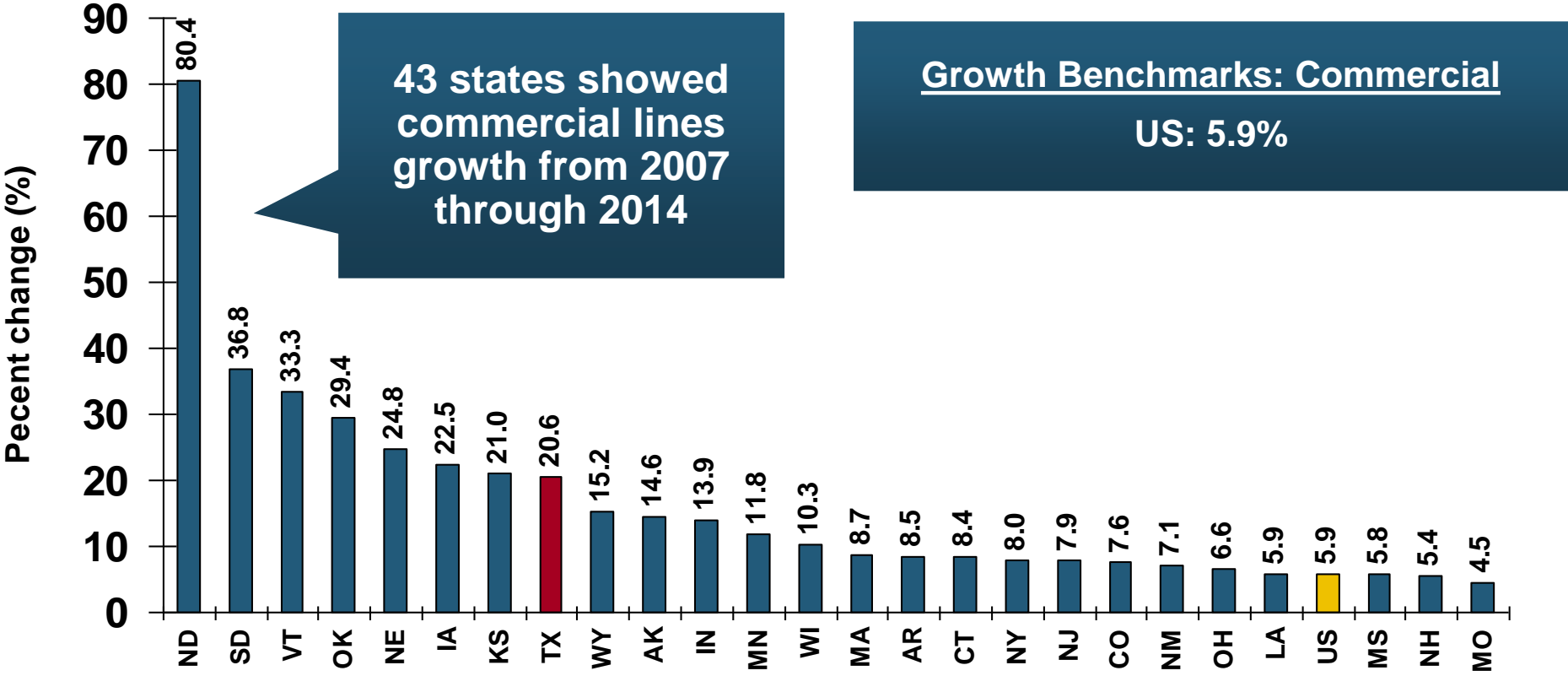
Bottom 25 States

The collapse of the housing bubble hit CA, FL and NV hard, leading to the slowest growth rates in the US between 2007 and 2014



Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2014

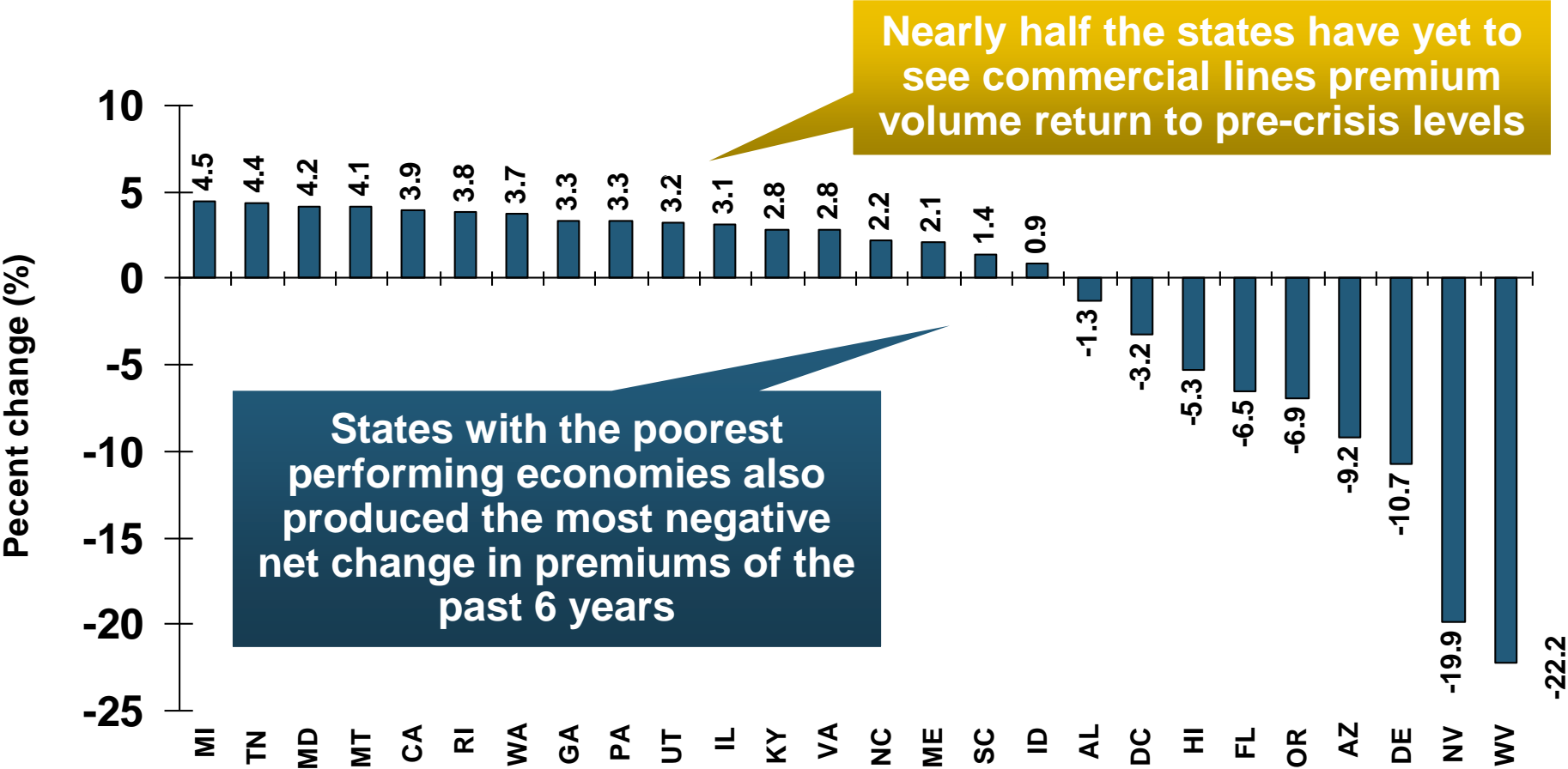
Top 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2014

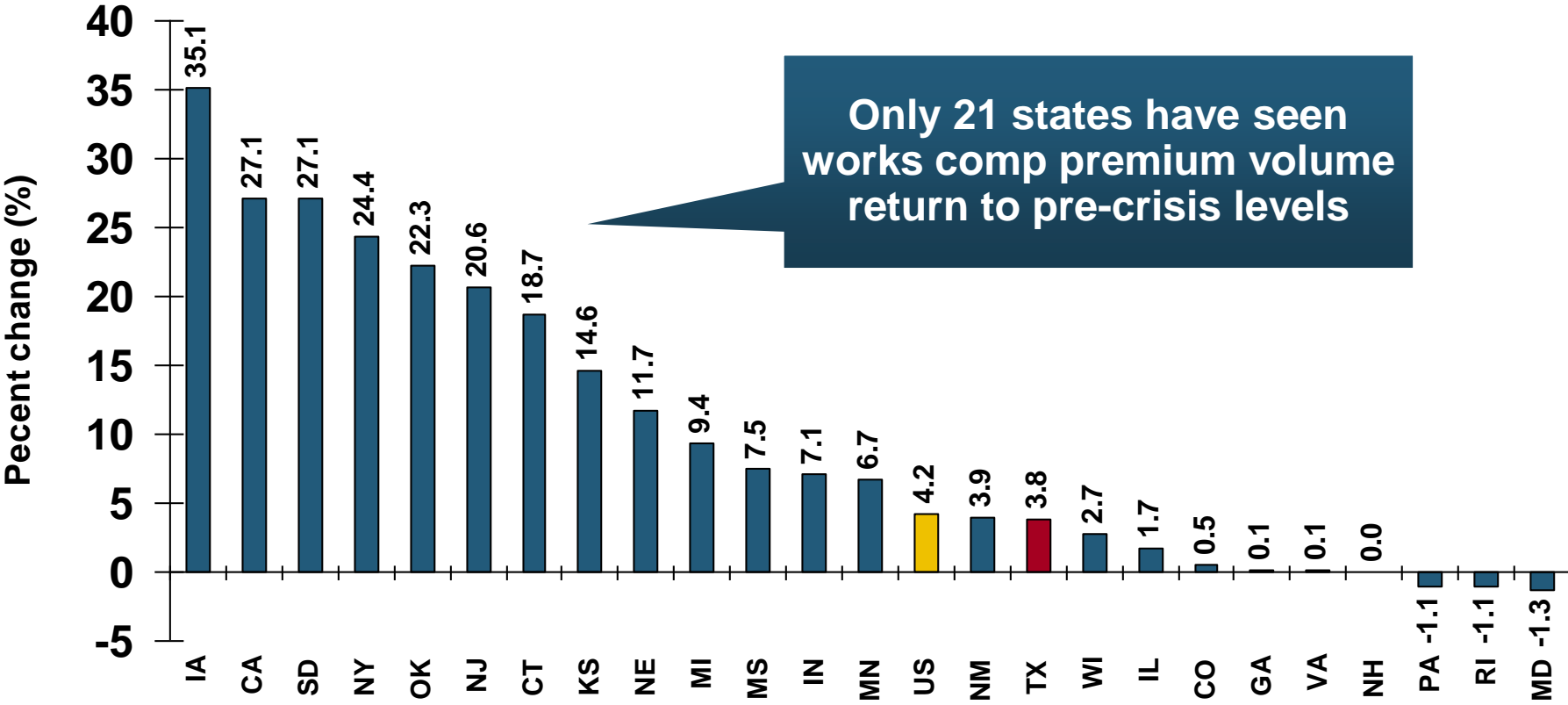
Bottom 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2014*

Top 25 States

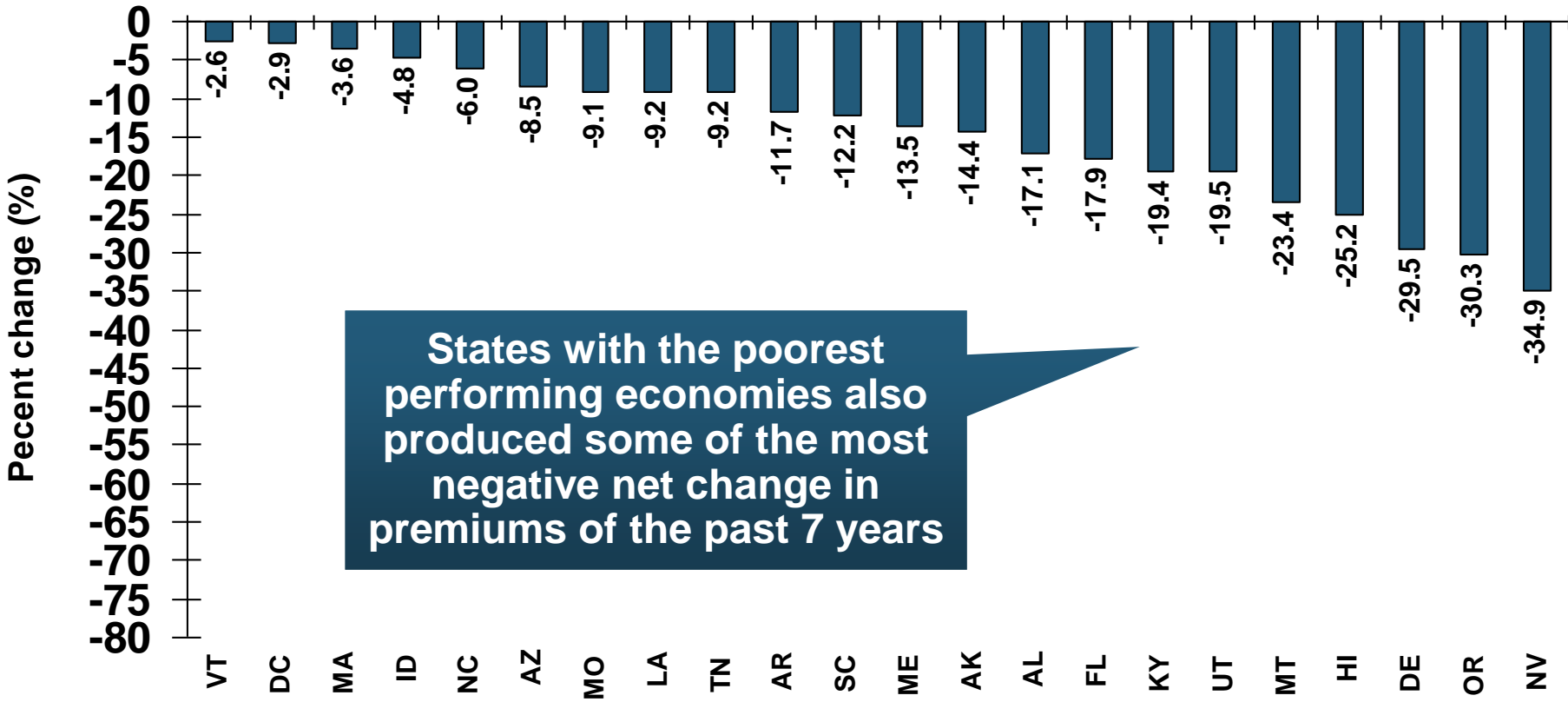


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2007-2014*

Bottom 25 States



States with the poorest performing economies also produced some of the most negative net change in premiums of the past 7 years

*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

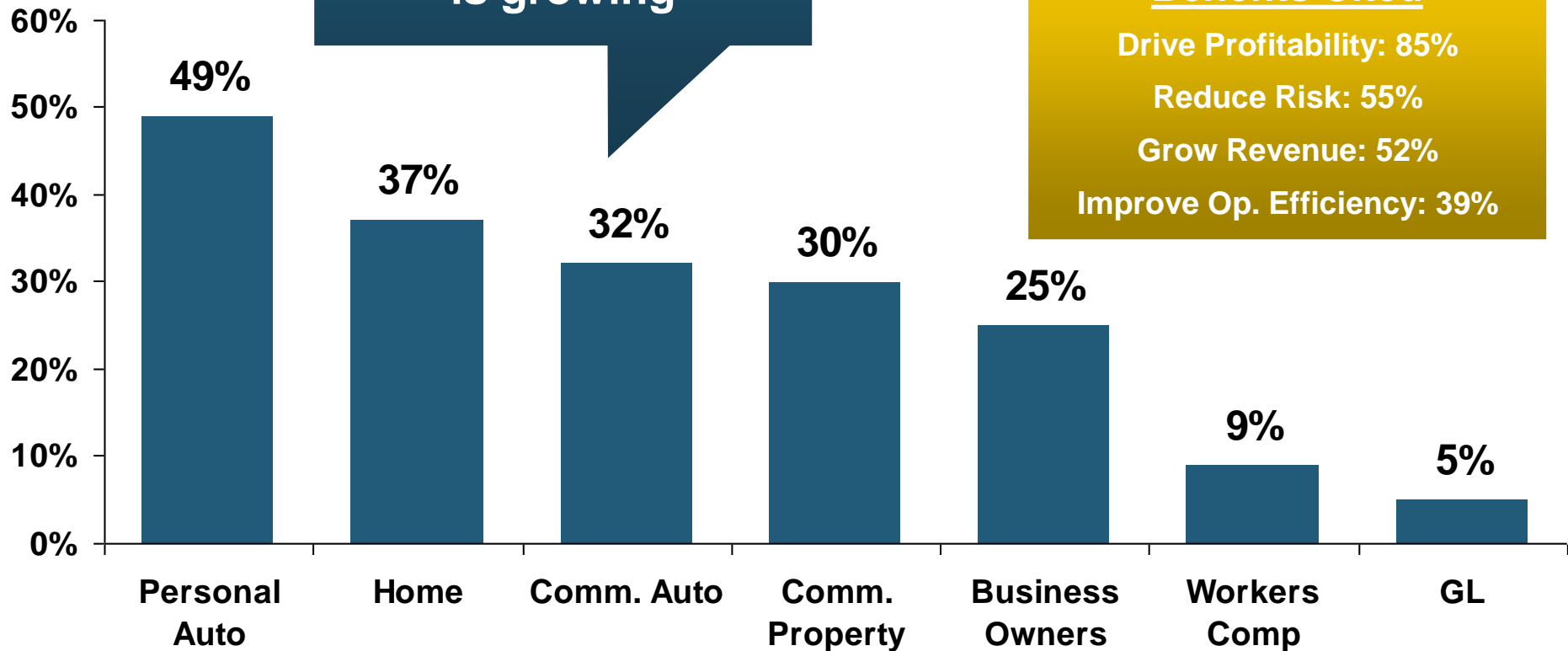
Sources: SNL Financial LC.; Insurance Information Institute.

Percentage of Carriers Using Predictive Analytics by Major P/C Line, 2013

Predictive analytics is more like to be used in personal lines, but commercial lines use is growing

82% of insurers report using predicative analytics in at least one line. 18% do not use it all.

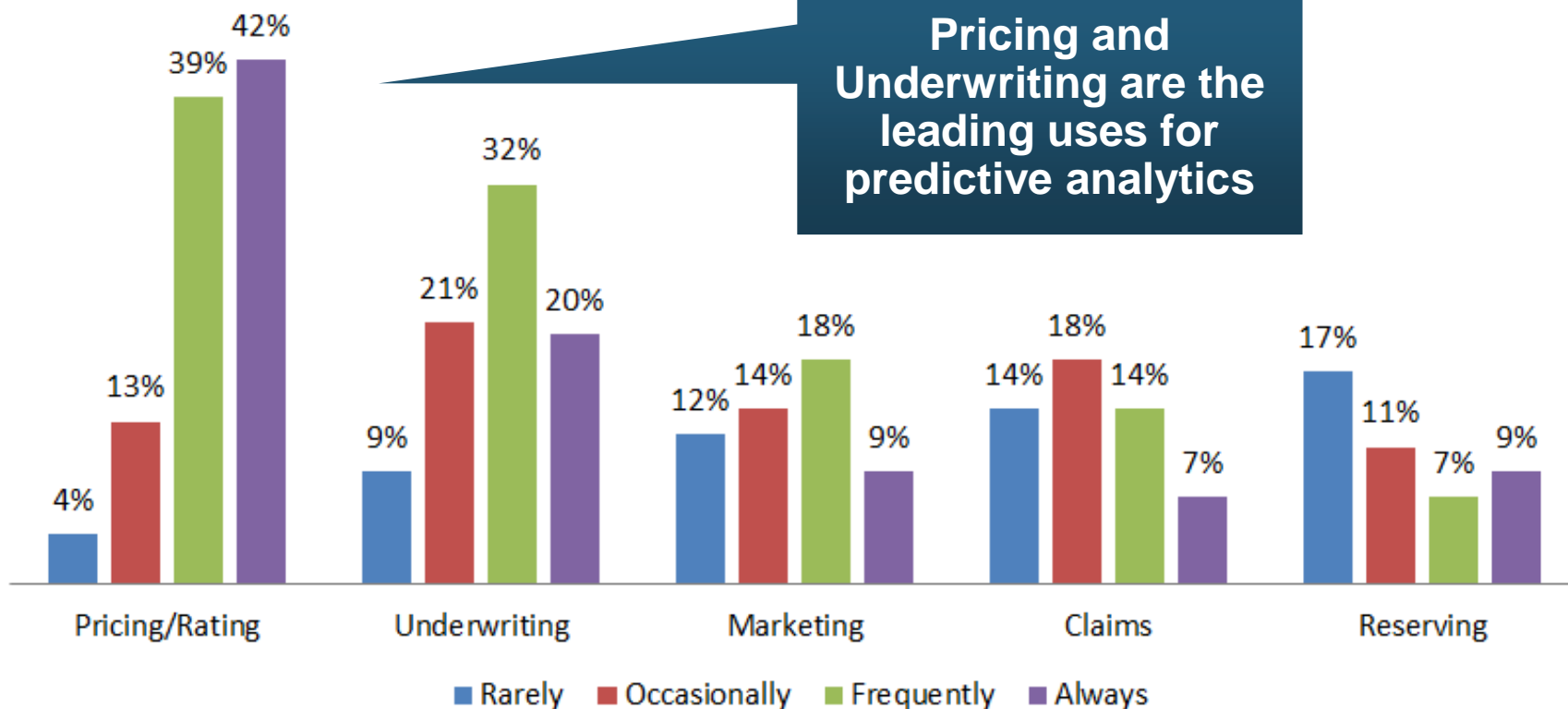
Benefits Cited
Drive Profitability: 85%
Reduce Risk: 55%
Grow Revenue: 52%
Improve Op. Efficiency: 39%



Uses of Predictive Analytics by Function

Uses of Predictive Modeling

Pricing and Underwriting are the leading uses for predictive analytics



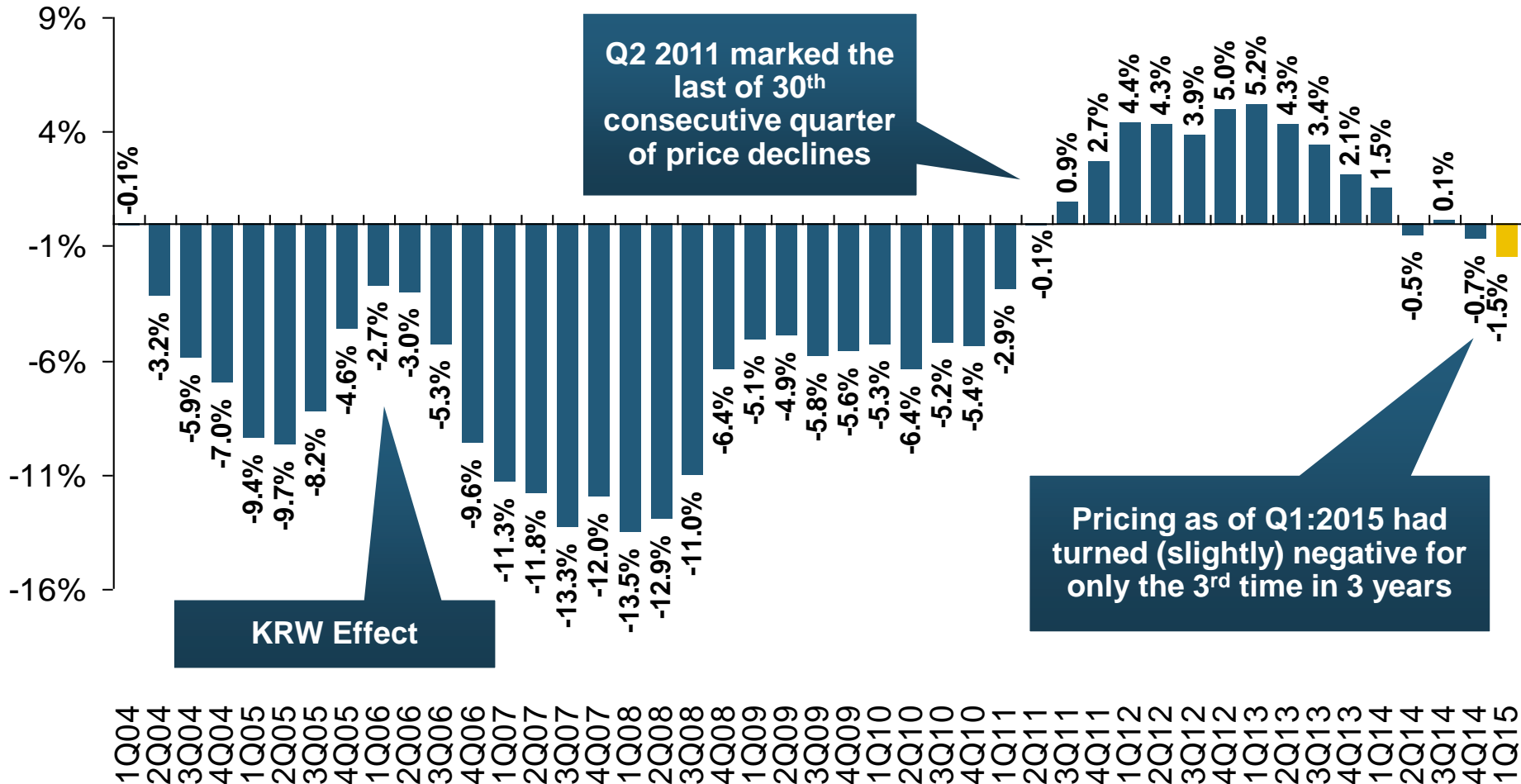
Source: Earnix/ISO September 2013 Survey

Commercial Lines Pricing Trends

**Survey Results Suggest
Commercial Pricing Has
Flattened Out**

Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2015)

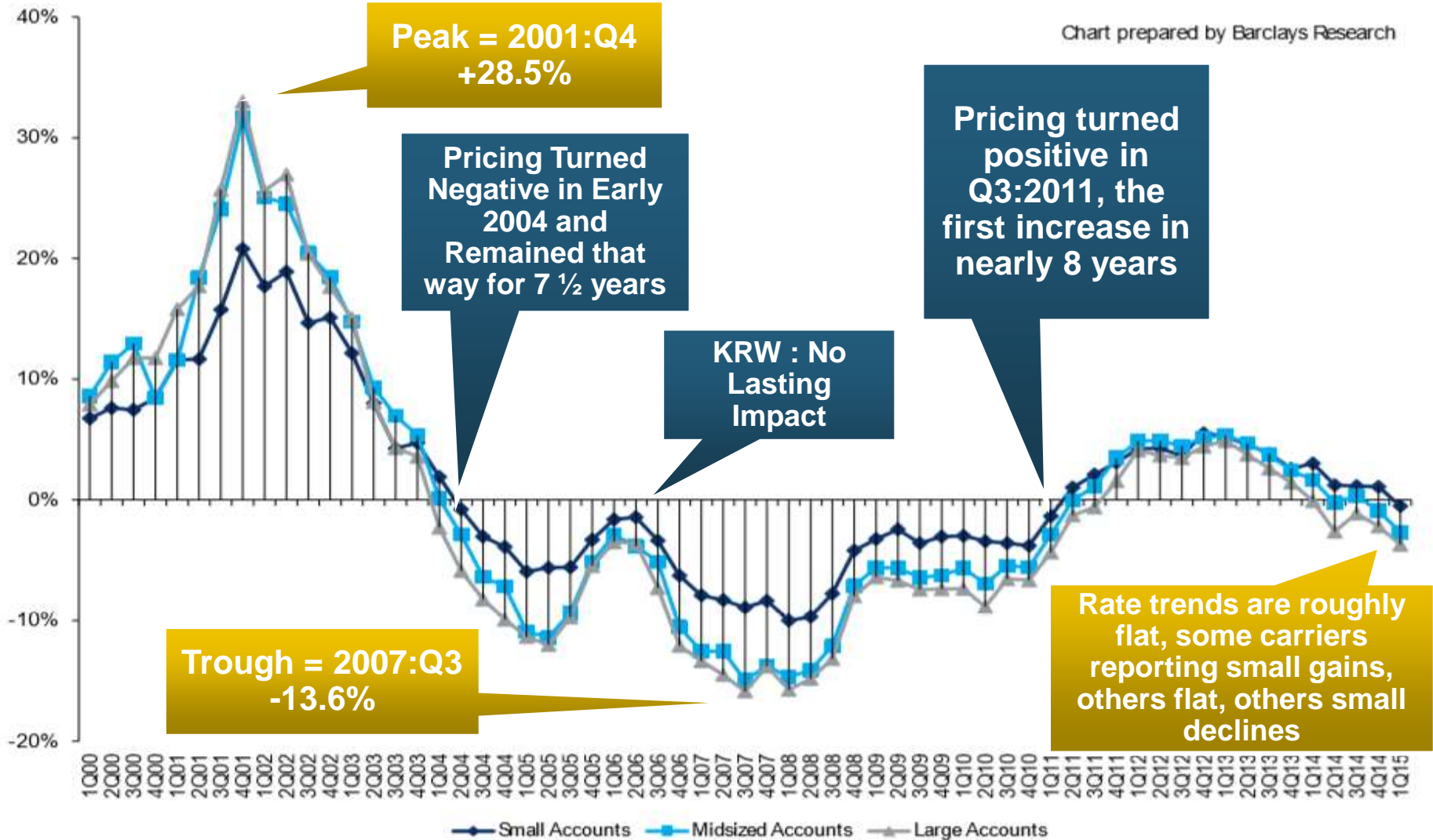
(Percent)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
 Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2015:Q1

Percentage Change (%)



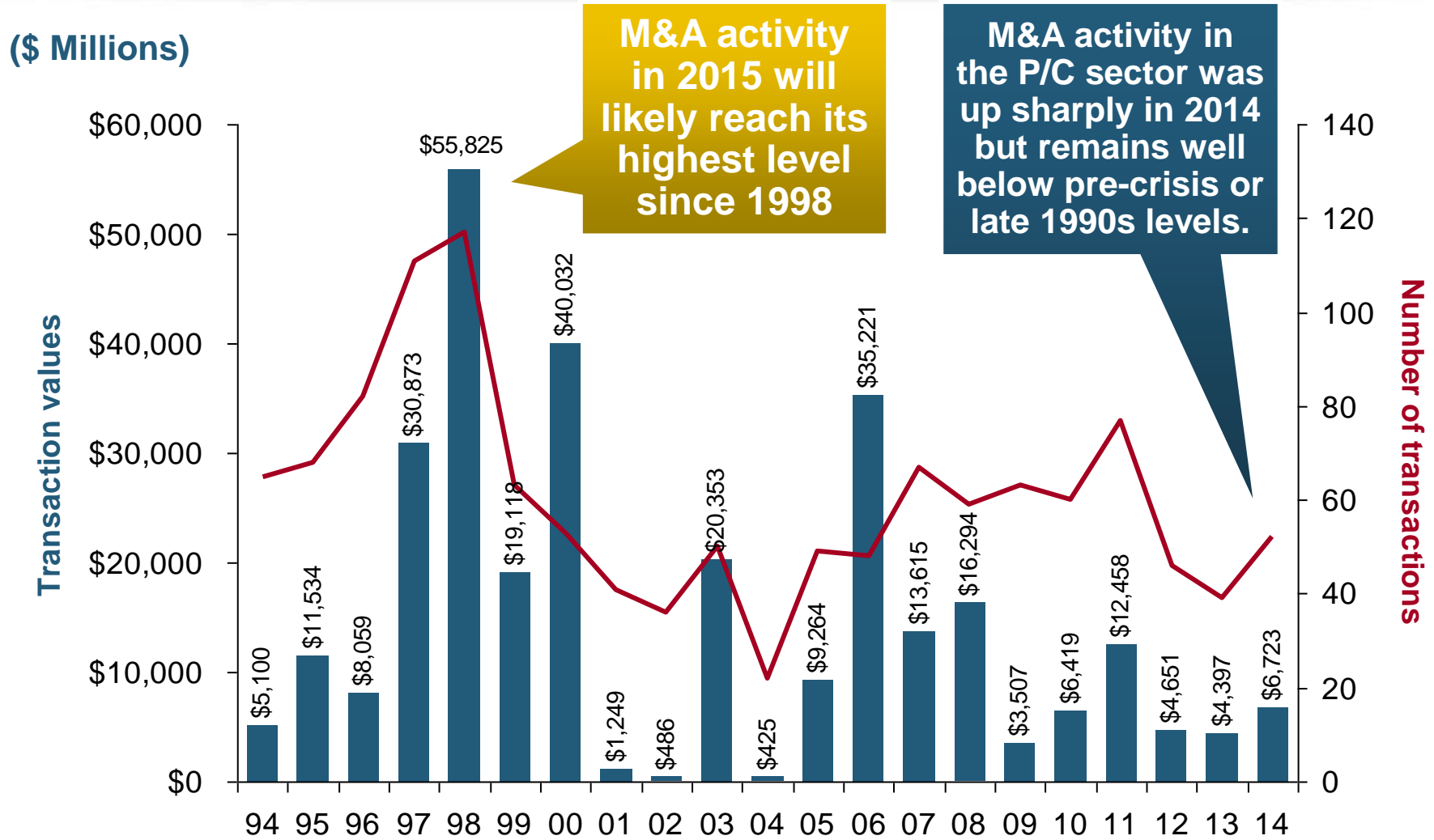
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, *potentially substantially*.

Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

**M&A UPDATE:
*A PATH TO GROWTH?***

**Are Capital Accumulation, Drive
for Growth and Scale Stimulating
M&A Activity?**

U.S. INSURANCE MERGERS AND ACQUISITIONS, P/C SECTOR, 1994-2014 (1)



(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Top Global P&C M&As in 2014 - YTD 2015



Acquirer	Target	Transaction Value
ACE (Switzerland)	Chubb (US)	\$28,300
PartnerRe Ltd. (Bermuda)	Axis Capital Holdings Ltd. (Bermuda)	\$11,000*
XL Group plc (Ireland)	Catlin Group Ltd. (Bermuda)	4,200
RenaissanceRe Holdings Ltd. (Bermuda)	Platinum Underwriters Holdings Ltd. (Bermuda)	1,900
Fairfax Financial Holdings Ltd. (Canada)	Brit Insurance Holdings NV (Netherlands)	1,880
Desjardins Financial Corp. (Canada)	State Farm's property/casualty and life insurance operations in Canada (Canada)	1,500
TPG Capital LP	The Warranty Group, Inc. (Canada)	1,500
Fosun International Ltd. (China)	Caixa Seguros e Saude SGPA SA (Portugal)	1,360
Progressive Corp.	ARX Holding Corp.	875
Assured Guaranty Ltd. (Bermuda)	Radian Asset Assurance, Inc.	810
Mapfre S.A. (Spain)	German and Italina operations of Direct Line Insurance Group plc (Germany/Italy)	701
Validus Holdings Ltd. (Bermuda)	Western World Insurance Group, Inc.	690
ACE Ltd. (Switzerland)	P&C business from Itau Seguros S.A. (Brazil)	685

Update: Alleghany Corp. announced in May 2015 that it is considering the sale of TransAtlantic Holding Co. (TransRe).

*Combined capital of merging companies. Deal was not complete as of 7/8/15 and a rival bid from Italian investment firm Exor was still under consideration.

Source: Conning; Insurance information Institute.

Recent M&A Transactions Involving Lloyd's and Bermuda Re/Insurers

Date	Acquirer	Target	Deal Value \$ Billion
Dec 2012	Aquiline	Equity Redstar	0.1
Jun 2013	Enstar/Stone Point	Atrium	0.2
Jul 2013	Enstar/Stone Point	Torus	0.7
Aug 2013	Ian Beaton and Management	Ark Syndicate Management	0.4
Aug 2013	Lancashire	Cathedral	0.4
Aug 2013	AmTrust	Sagicor	0.1
Sep 2013	ANV	Jubilee Managing Agency	N/A
Dec 2013	Sompo	Canopus	1.0
Feb 2014	Qatar Insurance Company	Antares	0.2
Jul 2014	BTG Pactual	Ariel Re	0.4
Nov 2014	RenaissanceRe	Platinum Underwriters	1.9
Dec 2014	XL Group	Catlin	4.1
Jan 2015	PartnerRe	AXIS	11.0*
Feb 2015	Fairfax Financial Holdings	Brit	1.9

*Deal was not complete as of 6/4/15 and a rival bid from Italian investment firm Exor was still under consideration.

Source: Swiss Re *sigma* 3/2015; Insurance information Institute.

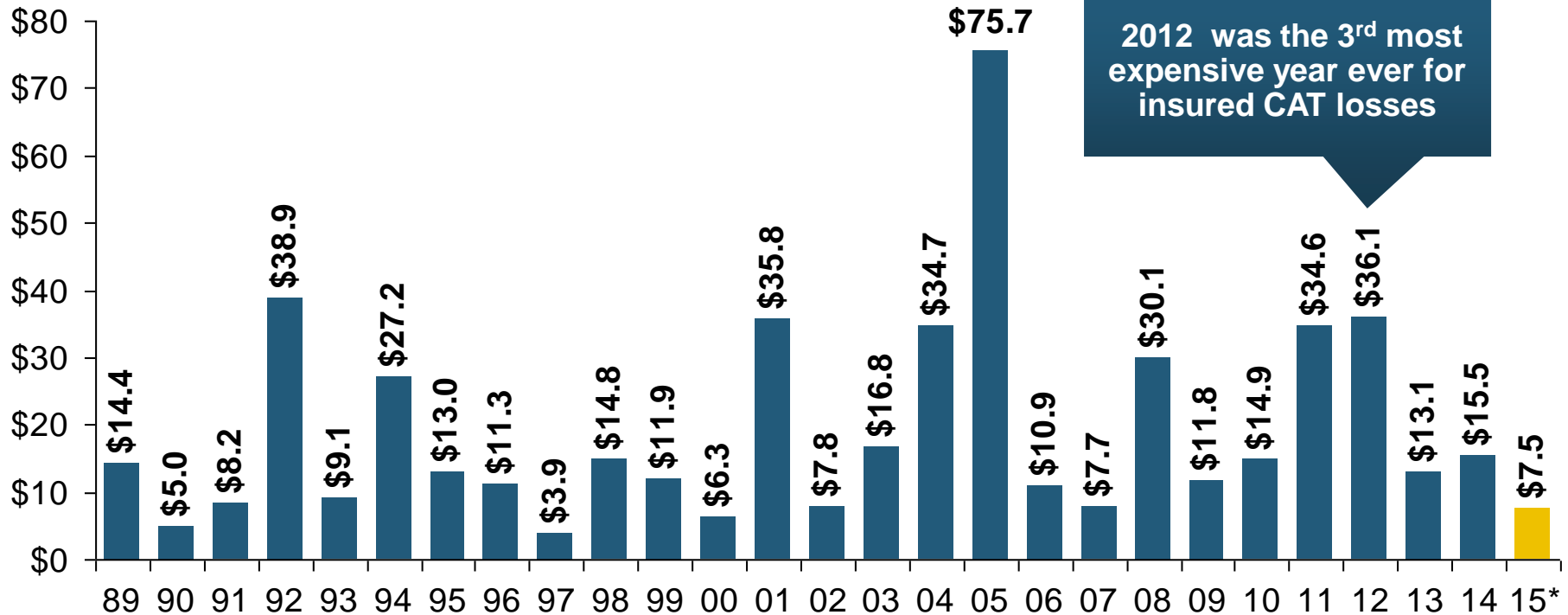
U.S. Insured Catastrophe Loss Update

**2013/14 Experienced Below Average CAT
Activity After Very High CAT Losses in
2011/12**

***Winter Storm Losses Far Above Average in
2014 and 2015***

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2014)



2012 was the 3rd most expensive year ever for insured CAT losses

2013/14 Were Welcome Respite from 2011/12, among the Costliest Years for Insured Disaster Losses in US History. Longer-term Trend is for more—not fewer—Costly Events

\$7.5B (est.) in insured CAT losses though 6/30/15, up slightly from \$7.3B in 2014

*Through 6/30/15 in 2015 dollars.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

Sources: Property Claims Service/ISO; AonBenfield Insurance Information Institute.

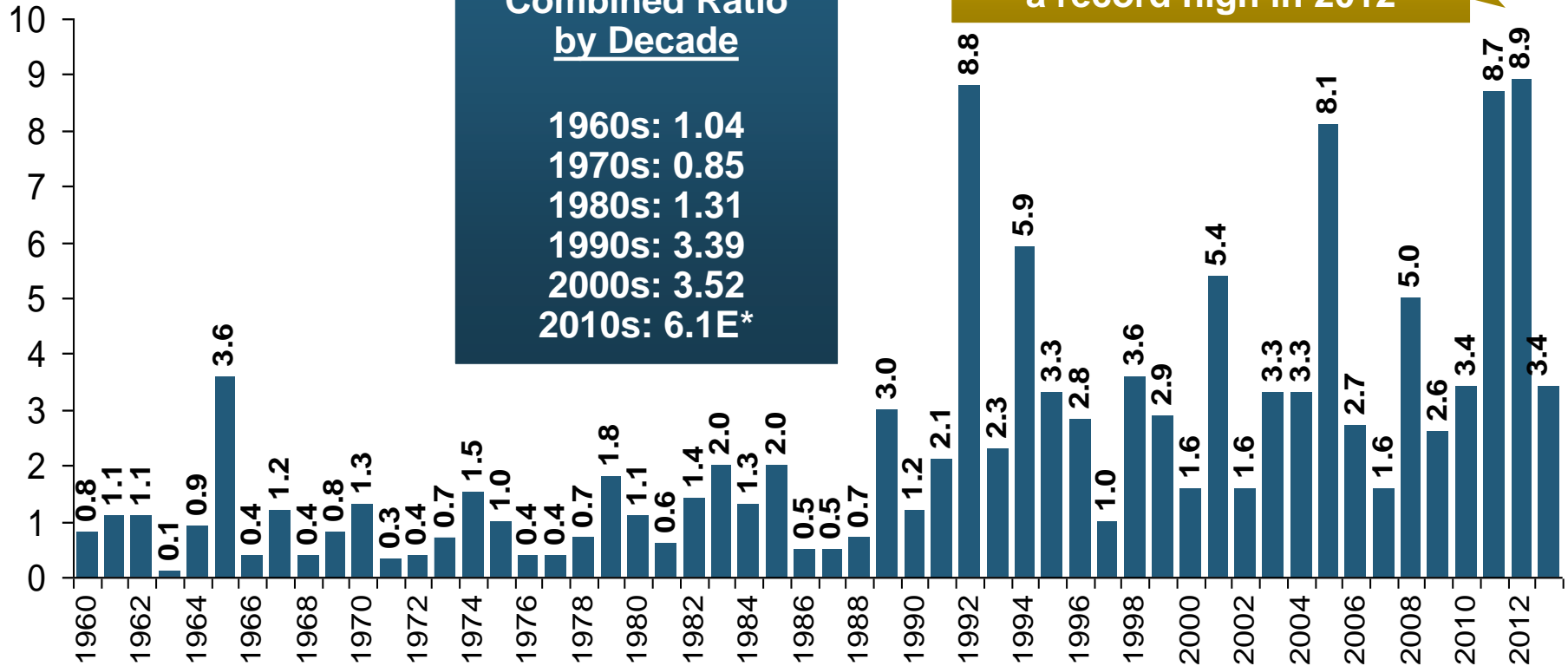
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04
 1970s: 0.85
 1980s: 1.31
 1990s: 3.39
 2000s: 3.52
 2010s: 6.1E*

Catastrophe losses as a share of all losses reached a record high in 2012



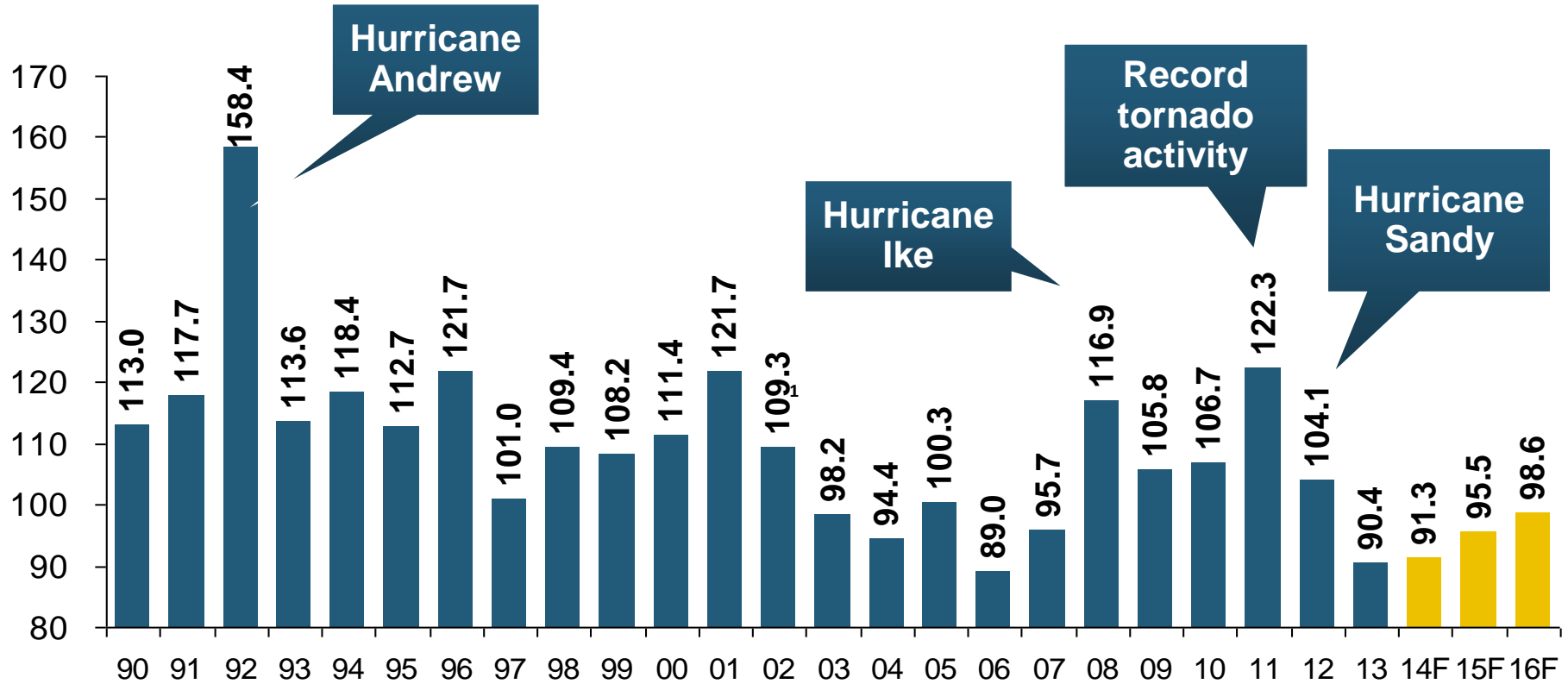
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*2010s represent 2010-2013.

Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

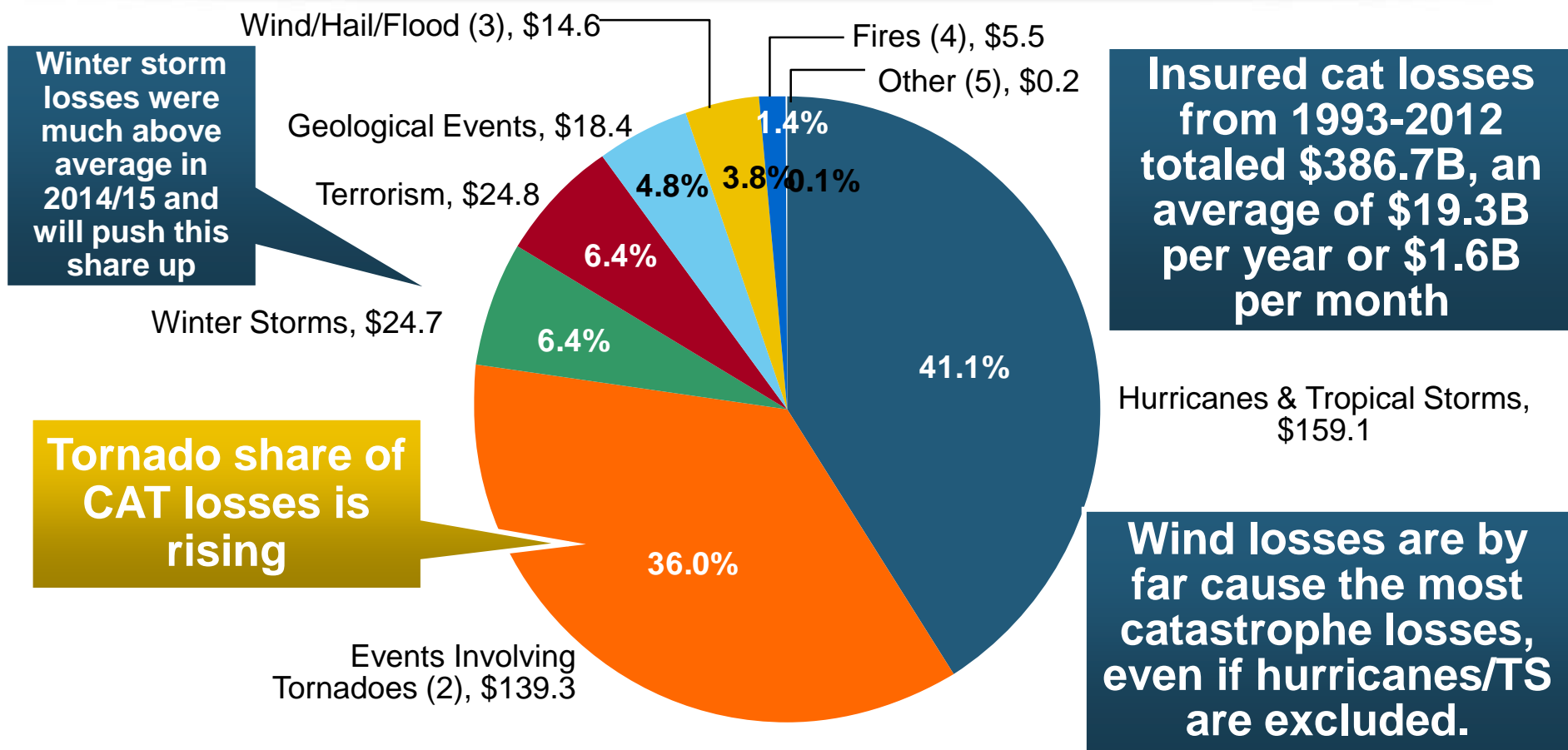
Source: ISO (1960-2011); A.M. Best (2012E) Insurance Information Institute.

Homeowners Insurance Combined Ratio: 1990–2016F



Homeowners Performance in 2011/12 Impacted by Large Cat Losses but Lower CATs Helped 2013/14. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1994–2013¹



Winter storm losses were much above average in 2014/15 and will push this share up

Insured cat losses from 1993-2012 totaled \$386.7B, an average of \$19.3B per year or \$1.6B per month

Tornado share of CAT losses is rising

Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.

1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2013 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

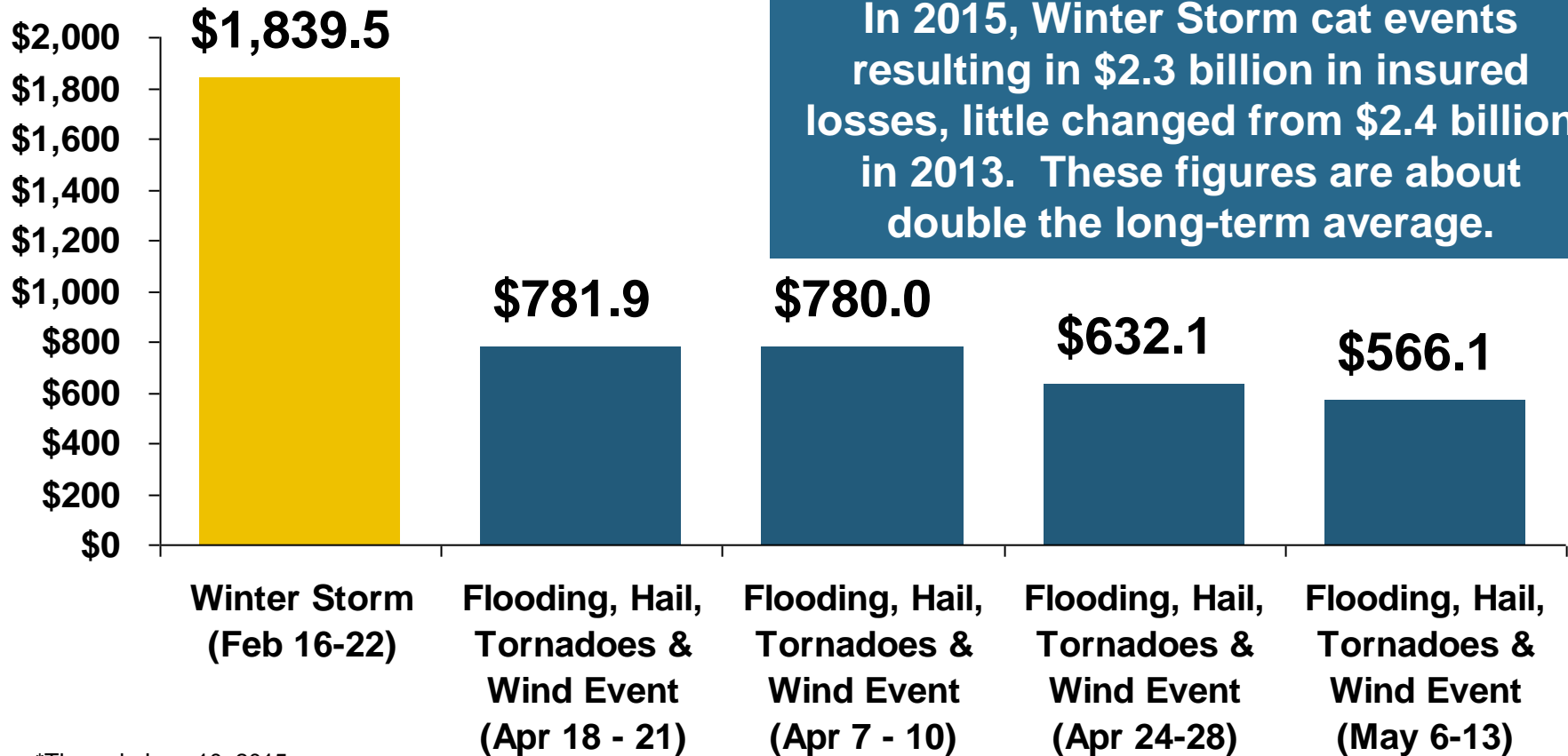
Source: ISO's Property Claim Services Unit.

Top 5 Insured Catastrophe Losses in 2015*

(\$ Millions)

As in 2014, a “Polar Vortex” event was the most costly cat through the first half of 2015 with \$1.84 billion in insured losses

In 2015, Winter Storm cat events resulting in \$2.3 billion in insured losses, little changed from \$2.4 billion in 2013. These figures are about double the long-term average.



*Through June 10, 2015.

Sources: PCS unit of Verisk Analytics; Insurance Information Institute.

2015 YTD Top Insured Catastrophe Losses*

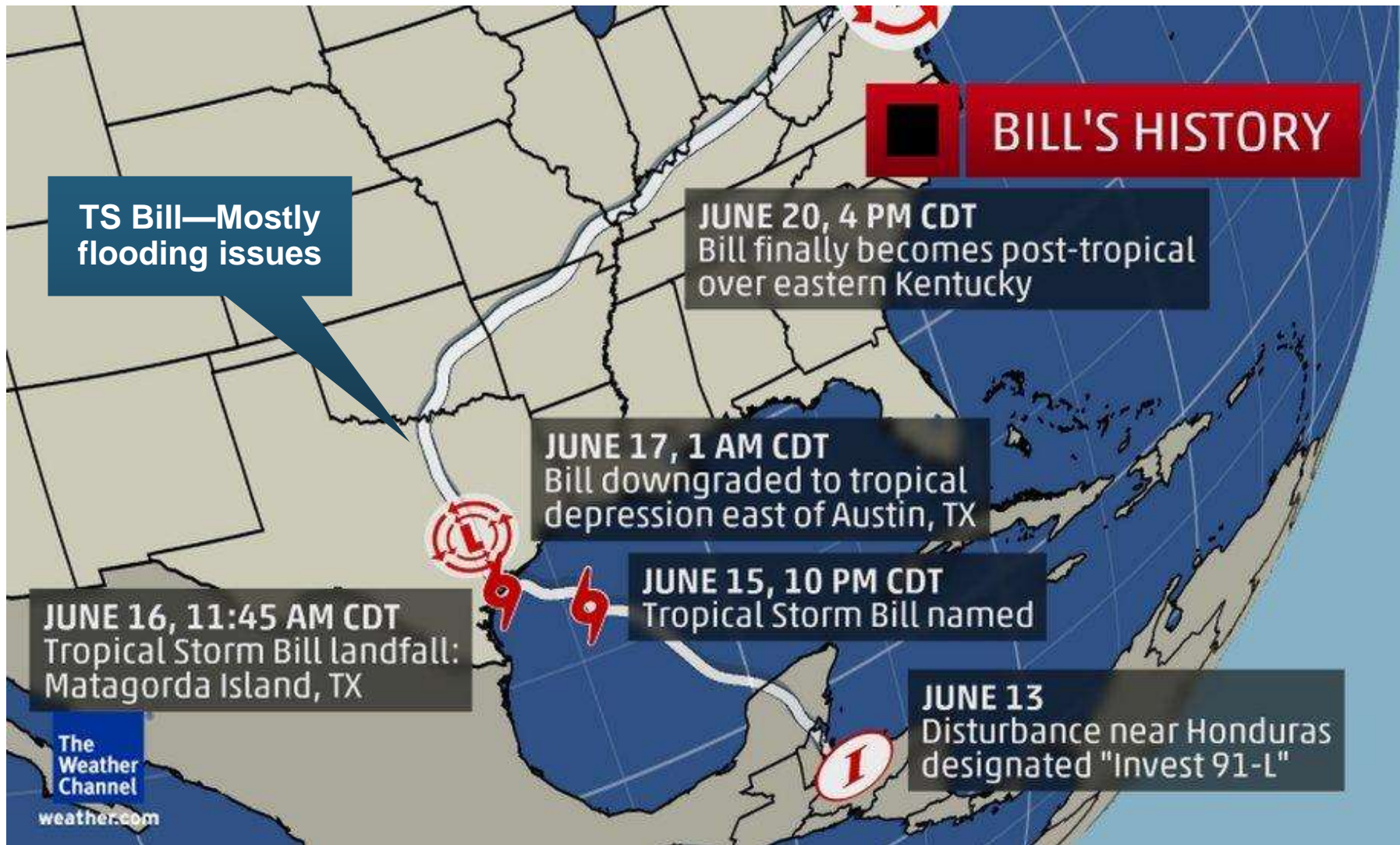
A February winter storm is by far the largest insured cat event of 2015

Cat No.	Period (2015)	States	Perils	Storm Family	Estimated Loss \$
68	Feb 16 - 22	CT, DC, DE, IL, KY, MA, MD, ME, MI, NC, NH, NJ, NY, OH, PA, RI, SC, TN, VA, VT	Freezing, Ice, Snow, Wind	Winter Storm	1,830,545,000
75	Apr 18 - 21	AL, AR, FL, GA, KS, LA, MS, NC, OK, PA, SC, TN, TX	Flooding, Hail, Tornadoes, Wind	Wind and Thunderstorm Event	781,948,000
73	Apr 7 - 10	AR, IA, IL, IN, KS, KY, MI, MO, NC, OH, OK, PA, TN, TX, WI, WV	Flooding, Hail, Tornadoes, Wind	Wind and Thunderstorm Event	779,950,000
76	Apr 24 - 28	AL, FL, GA, KY, LA, MS, TX	Flooding, Hail, Tornadoes, Wind	Wind and Thunderstorm Event	632,138,000
79	May 6 - 13	CO, IA, KS, NE, OK, SD, TX	Flooding, Hail, Tornadoes, Wind	Wind and Thunderstorm Event	566,100,000
Total					4,590,681,000

*PCS estimate as of 6/10/15.

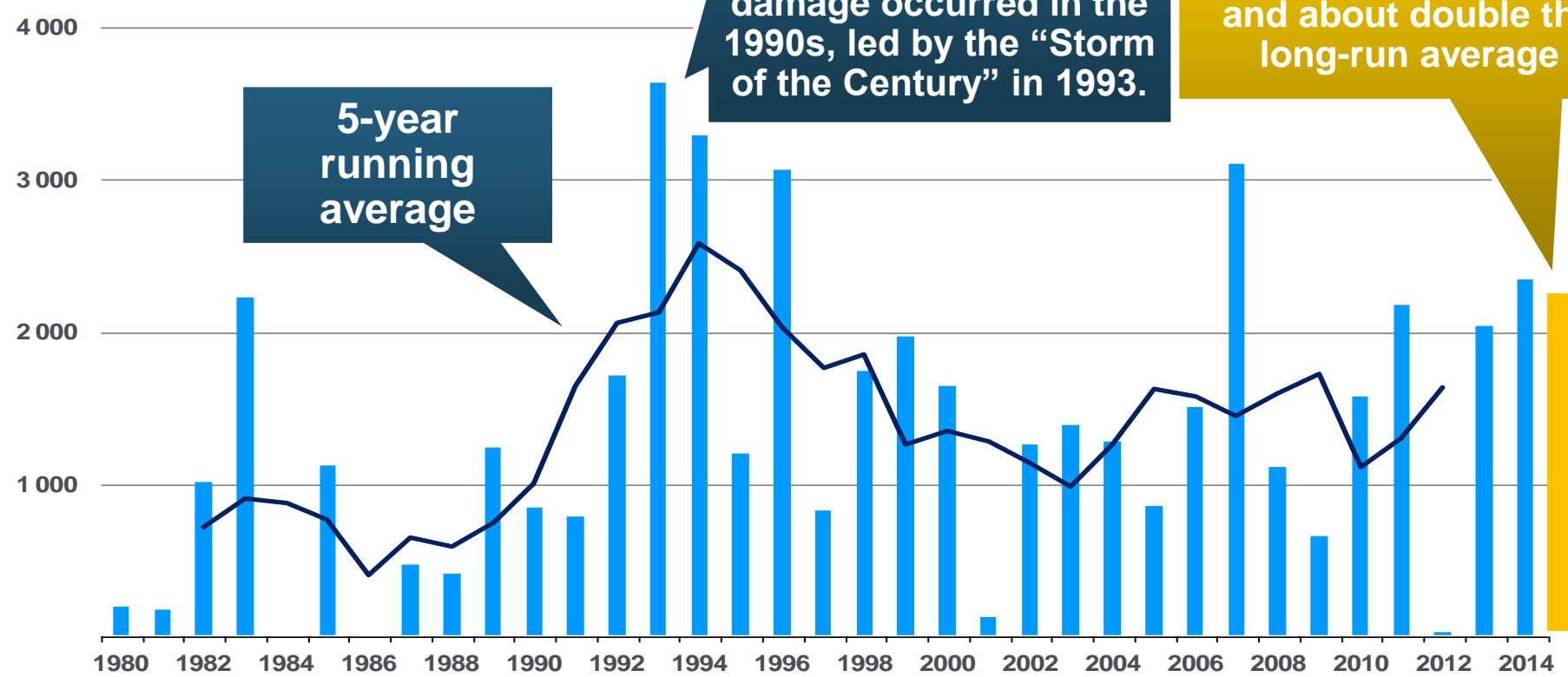
Sources: PCS.

Tropical Storm Bill Came Ashore in Texas on June 16



Winter Storm and Winter Damage Events in the US, 1980-2015 (2014 US\$)

\$ Billions, in 2014 Dollars



5-year running average

Three of the four most costly years ever for insured losses from winter storms and damage occurred in the 1990s, led by the "Storm of the Century" in 1993.

2015 insured winter storm losses totaled \$2.3B, similar to 2014 and about double the long-run average

*Winter storms include winter damage, blizzard, snow storm and cold wave

**Losses adjusted to inflation based on country CPI

Source: Property Claim Services, MR NatCatSERVICE.

Top 11 Insured Loss Events from Riots and Civil Commotion

Year	Deaths	Date	State	Insured Loss When Occurred	Insured Losses (2014 \$MM)
1992	14	Apr 29 - May 4	CA	775,000,000	1,307.7
1980	62	May 17 - 19	FL	65,250,000	187.5
1967	48	Jul 23 - 31	MI	41,500,000	294.2
1965	87	11-Aug	CA	38,000,000	285.6
1977	99	Jul 13 - 14	NY	28,000,000	109.4
1967	47	Jul 12 - 21	NJ	11,000,000	78.0
1966	20	12-Jul	IL	4,000,000	29.2
2015	0	Apr 18 – May 1	MD	23,900,000	23.9*
1971	63	Jun 13 - 15	NM	3,000,000	17.5
1977	11	Jul 13 - 14	NY	2,000,000	7.8

April 2015 Baltimore riots were designated a PCS CAT event on April 29 (first PCS designation for a riot in 23 years) as of 6/10/15 insured losses totaled \$23.9 million (2014 Ferguson riots did not receive PCS designation)

*As of 6/10/15.

Source: PCS unit of Verisk Analytics; Insurance Information Institute

Insurance Coverage for Riots and Civil Commotions: Home, Auto and Business

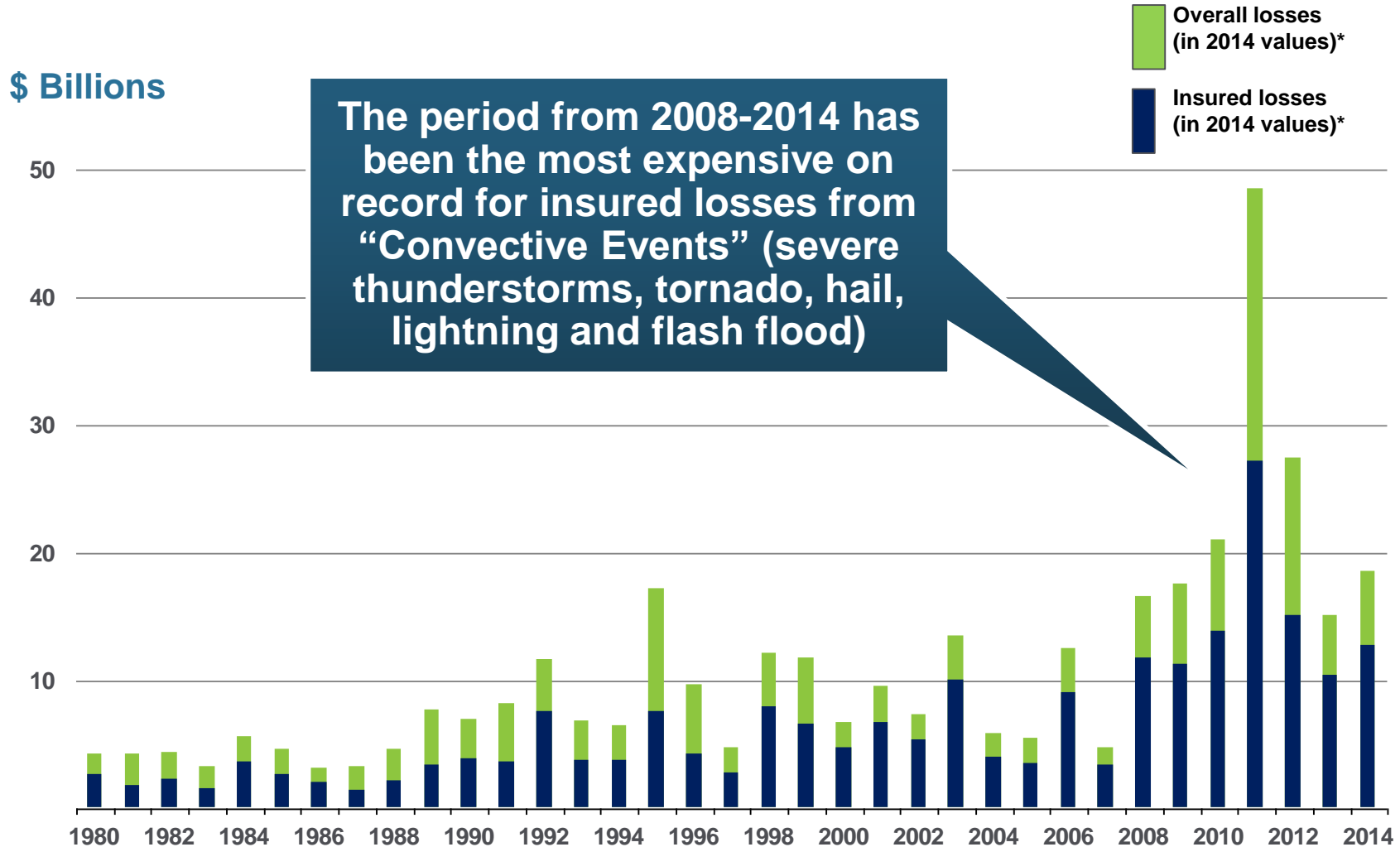
- Auto, homeowners, and business insurance policies generally include coverage for property losses caused by riots and civil commotions
- Homeowners policies pay to repair, or rebuild, an insured home if its structure is damaged or destroyed as the result of a riot or civil commotion, as well as to replace the homeowner's personal belongings if they are damaged or stolen during the event.
 - ◆ If the home is rendered uninhabitable by the damage caused by a riot or civil commotion, policyholders can file an additional living expenses (ALE) claim to finance their temp. housing expenses until the residence has been repaired.
- The optional comprehensive coverage on an auto insurance policy reimburses losses to a vehicle due to damage caused by falling objects, fire, riots and vandalism, among other things.
- Standard business property insurance policies provide coverage for the structure of the building as well as the contents inside, and cover losses arising from riots or civil commotion. Business interruption (BI) coverage, whereby the policyholder can file a claim for lost income, is usually only triggered when the insured business incurs direct physical damage.

Natural Disaster Losses in the US, 2014

Based on perils

As of January, 2015	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	62	98	17,000	12,300
Winter Storm, winter damage, cold wave, snow storm	13	115	3,700	2,300
Flood, flash flood, storm surge	20	5	1,800	500
Earthquake & Geophysical, landslides	11	45	750	150
Tropical Cyclone	2	1	95	Minor market losses
Wildfire, Heat, & Drought	11	2	1,700	Minor market losses
Totals	119	266	25,000	15,300

Convective Loss Events in the US Overall and insured losses, 1980 – 2014



*Losses adjusted to inflation based on CPI

Source: Geo Risks Research, NatCatSERVICE

Analysis contains:

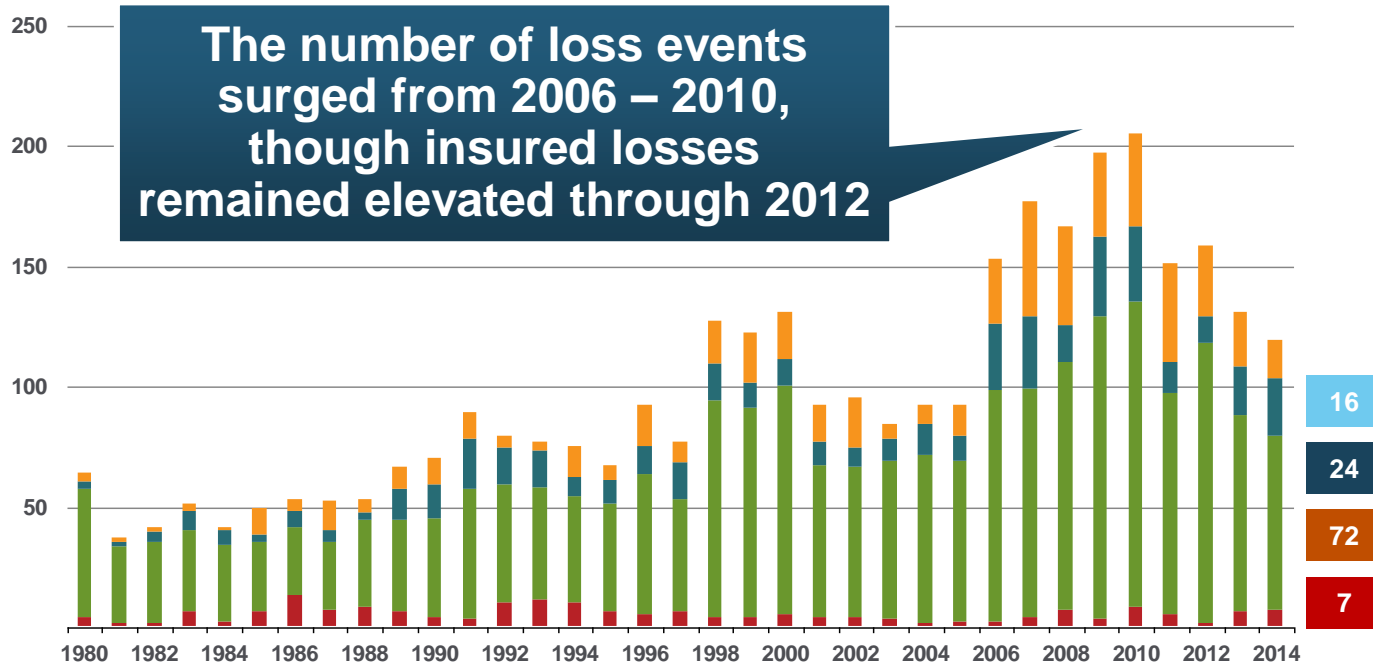
severe storm, tornado, hail, flash flood and lightning

Loss events in the US, 1980 – 2014

Number of events

Number of Events

**2014 Total:
119 Events**



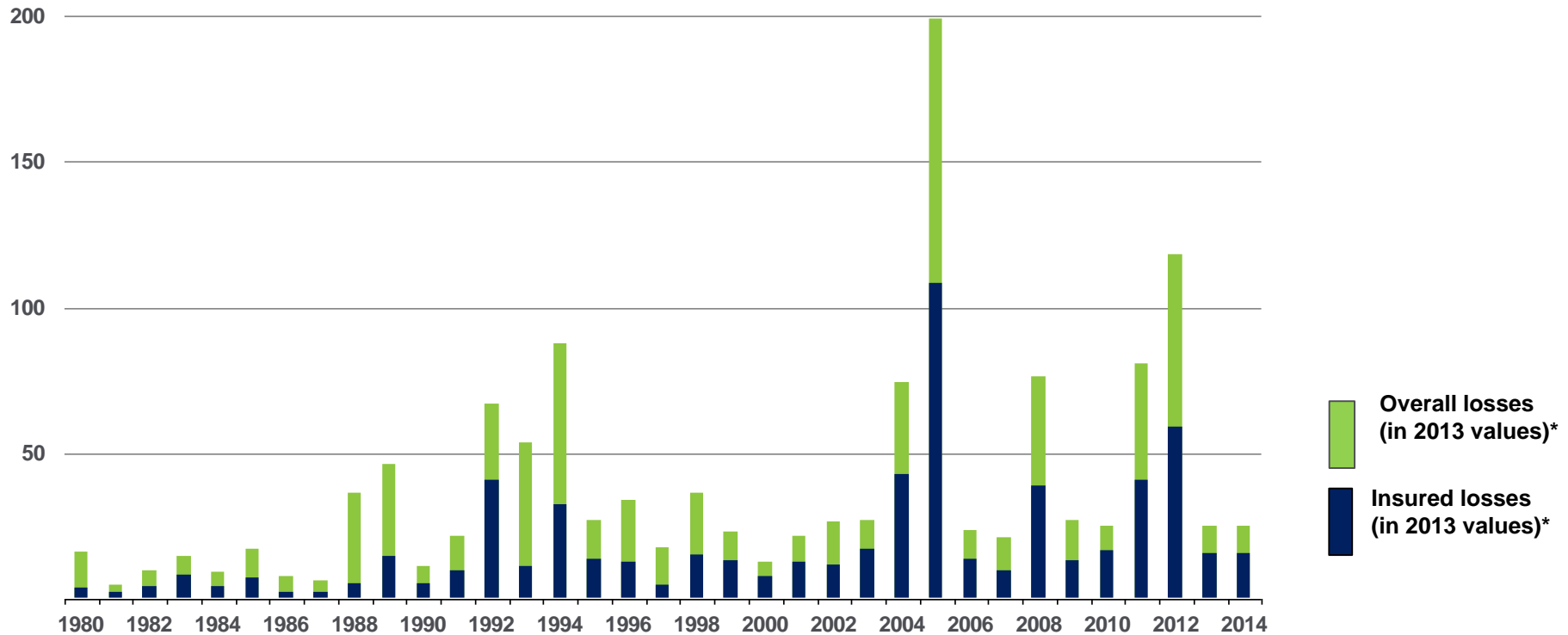
- **Geophysical events**
(Earthquake, tsunami, volcanic activity)
- **Meteorological events**
(Tropical storm, extratropical storm, convective storm, local storm)
- **Hydrological events**
(Flood, mass movement)
- **Climatological events**
(Extreme temperature, drought, forest fire)

Loss Events in the US, 1980 – 2014

Overall and insured losses

Overall losses totaled US\$ 25bn; Insured losses totaled US\$ 15.3bn

\$ Billions



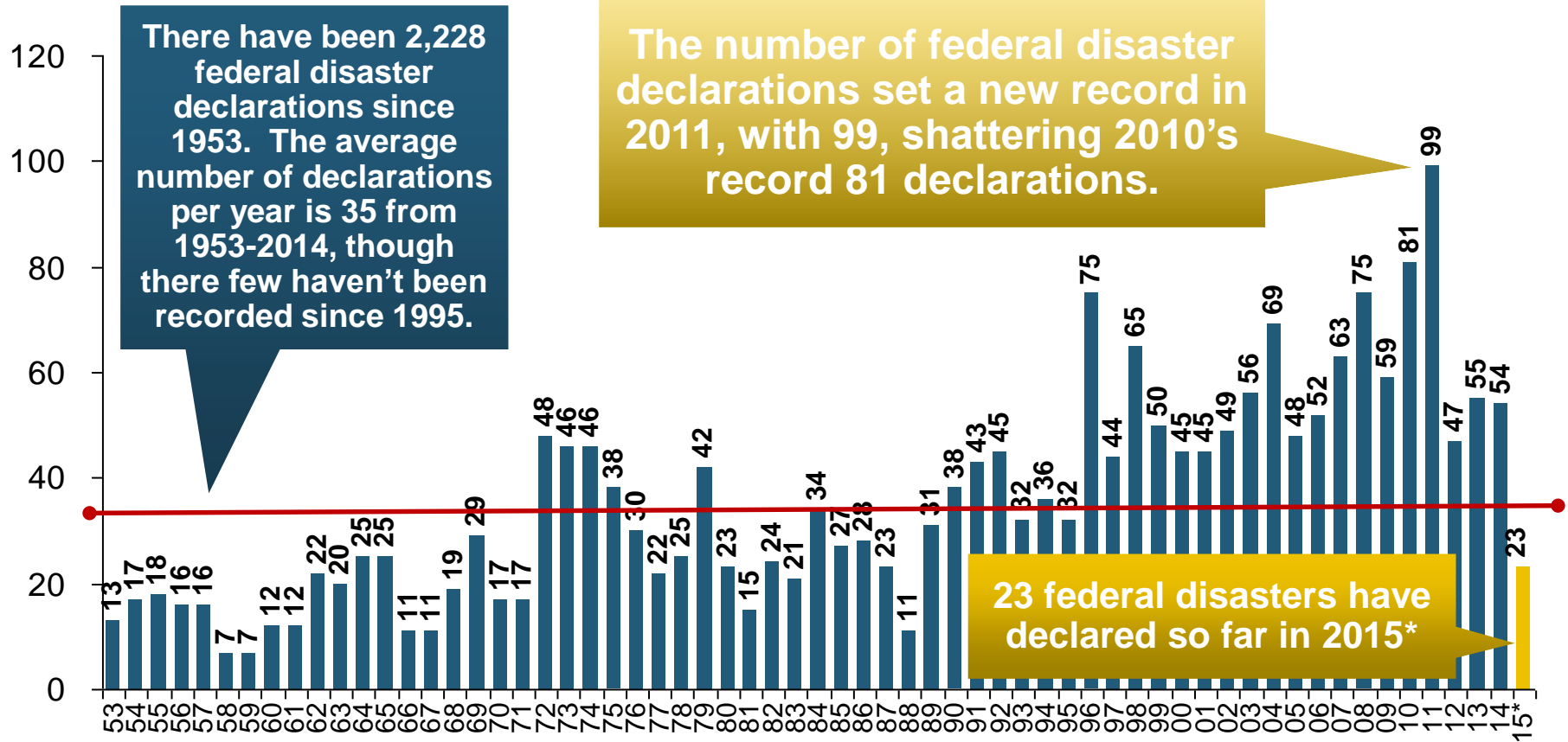
*Losses adjusted to inflation based on CPI.



Federal Disaster Declarations Patterns: 1953-2015

**Disaster Declarations Set New
Records in Recent Years**

Number of Federal Major Disaster Declarations, 1953-2015*

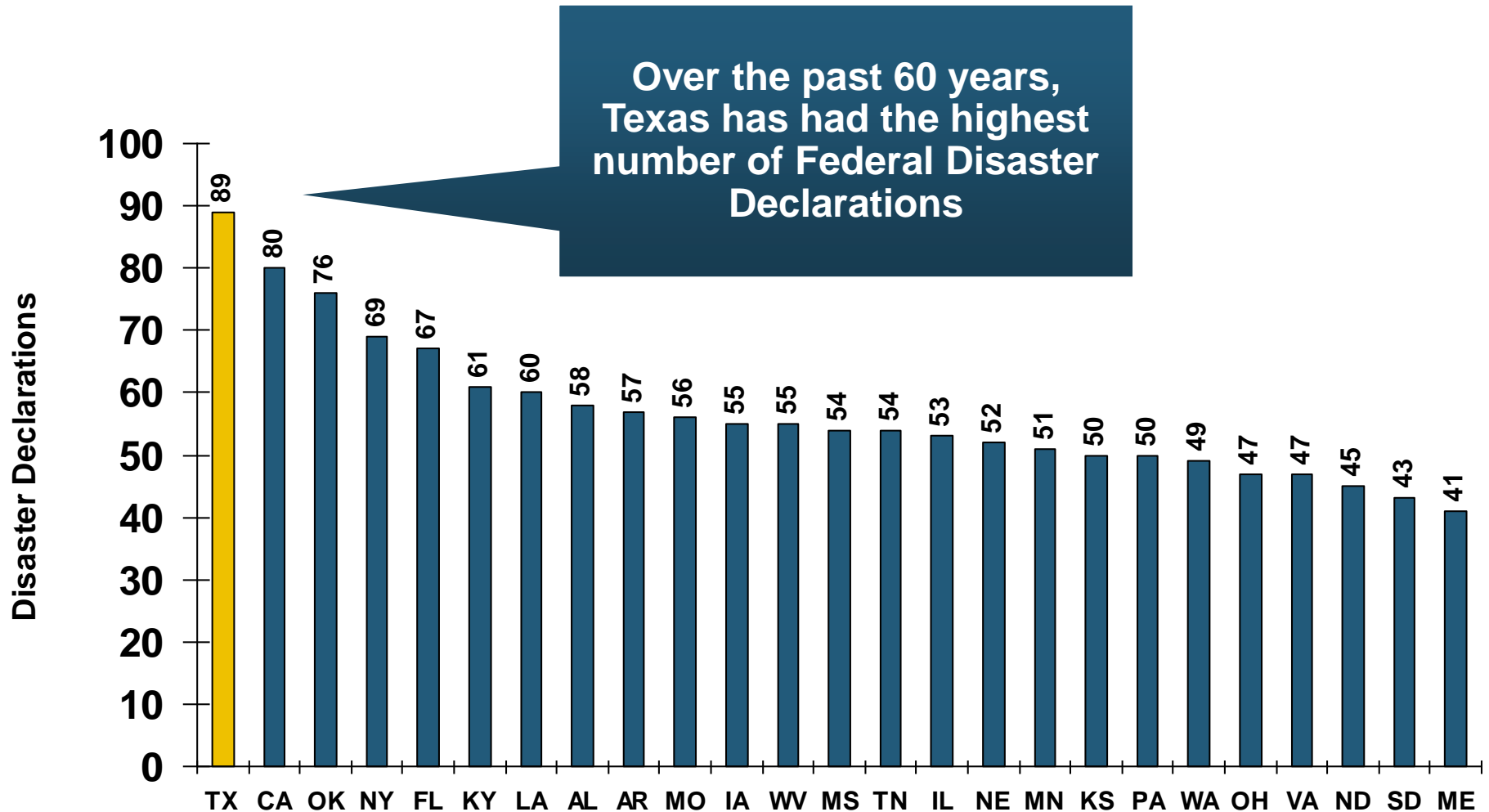


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 and 2011 Before Dropping in 2012-2014

*Through July 7, 2015.

Source: Federal Emergency Management Administration; <http://www.fema.gov/disasters>; Insurance Information Institute.

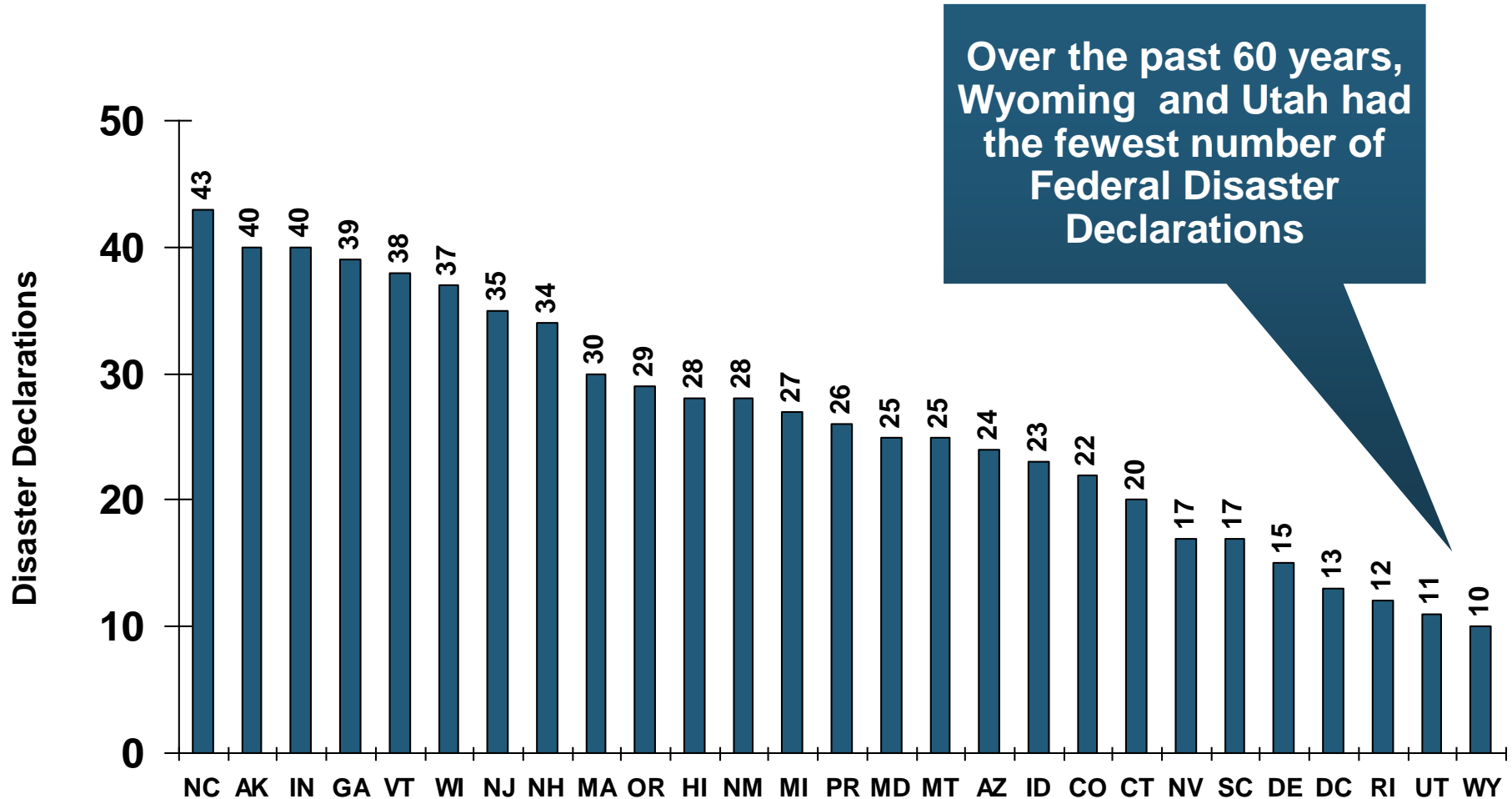
Federal Disasters Declarations by State, 1953 – 2015: Highest 25 States*



*Through July 7, 2015. Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

Federal Disasters Declarations by State, 1953 – 2015: Lowest 25 States*

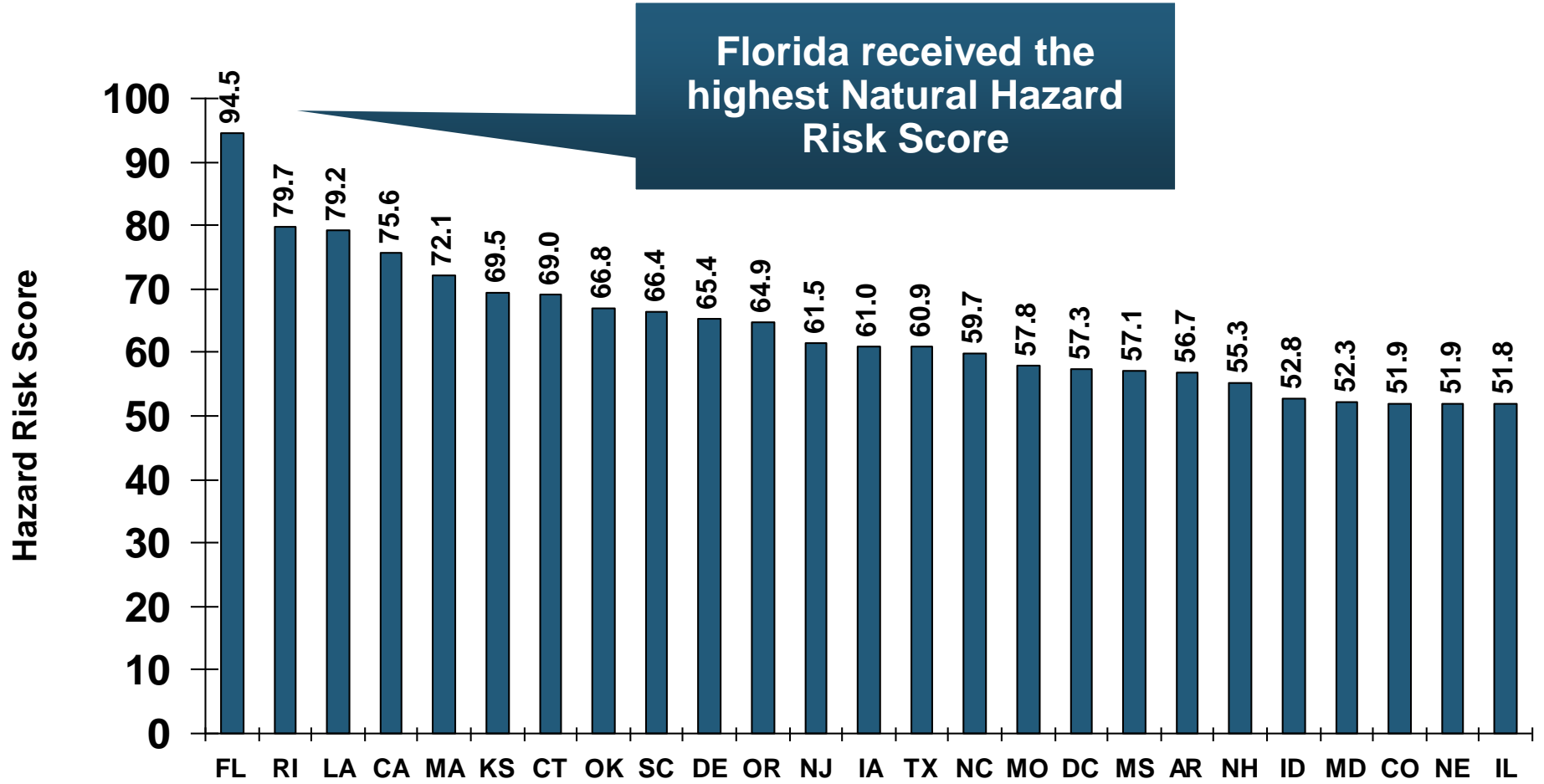


*Through July 7, 2015. Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

Natural Hazard Risk Scores, 2014

Highest 25 States*



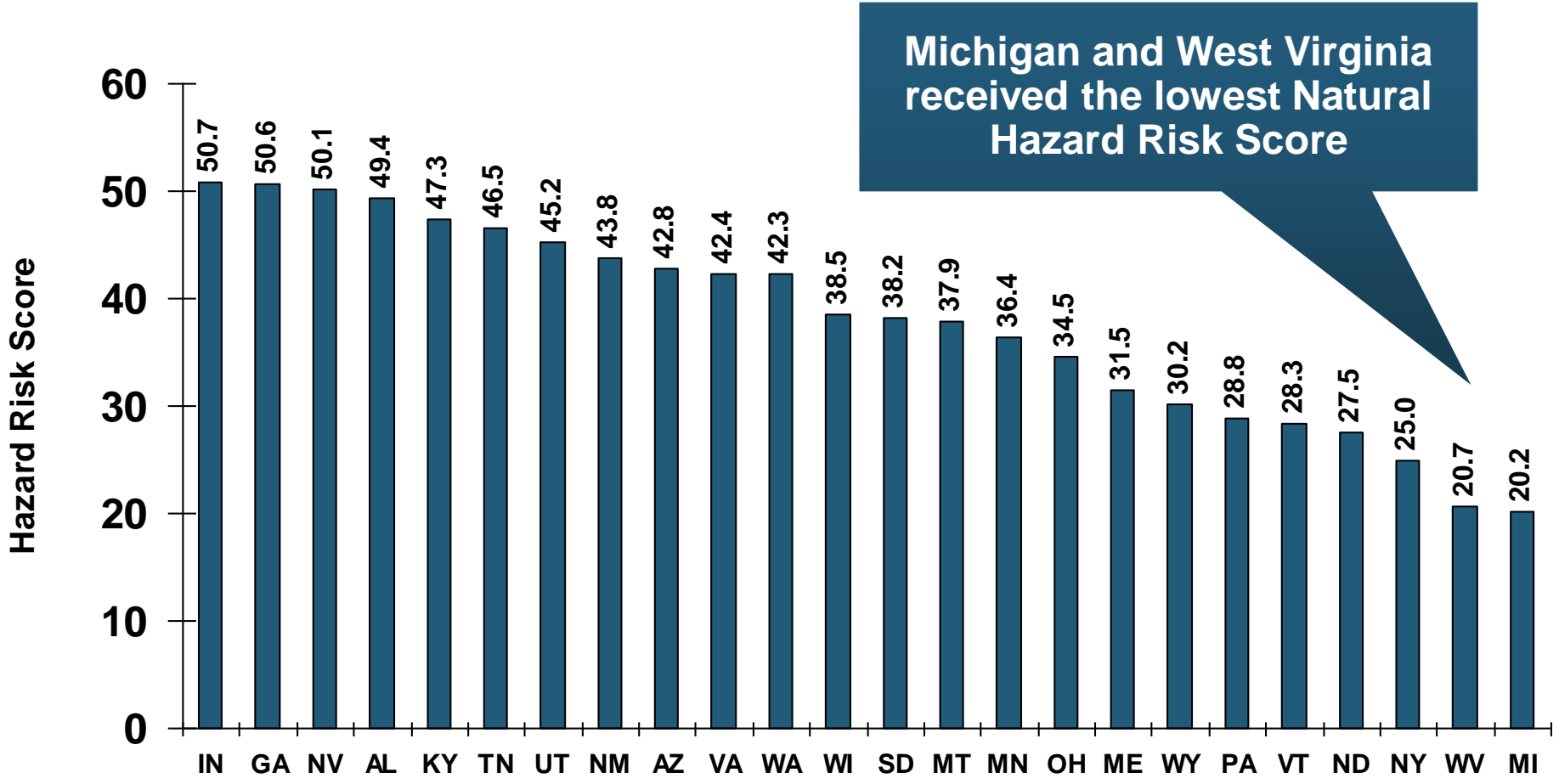
Note: Score is based on data on 9 natural hazards: flood, wildfire, tornado, storm surge, earthquake, straight-line wind, hurricane, wind, hail and sinkhole.

*Analysis Includes DC. Excludes Alaska and Hawaii due to limited natural hazard risk data.

Sources: CoreLogic release "CoreLogic Identifies US States at Highest Risk of Property Damage Loss from Natural Hazards," Sept. 10, 2014; Insurance Information Institute.

Natural Hazard Risk Scores, 2014

Bottom 24 States*



Michigan and West Virginia received the lowest Natural Hazard Risk Score

Note: Score is based on data on 9 natural hazards: flood, wildfire, tornado, storm surge, earthquake, straight-line wind, hurricane, wind, hail and sinkhole.

*Analysis Includes DC. Excludes Alaska and Hawaii due to limited natural hazard risk data.

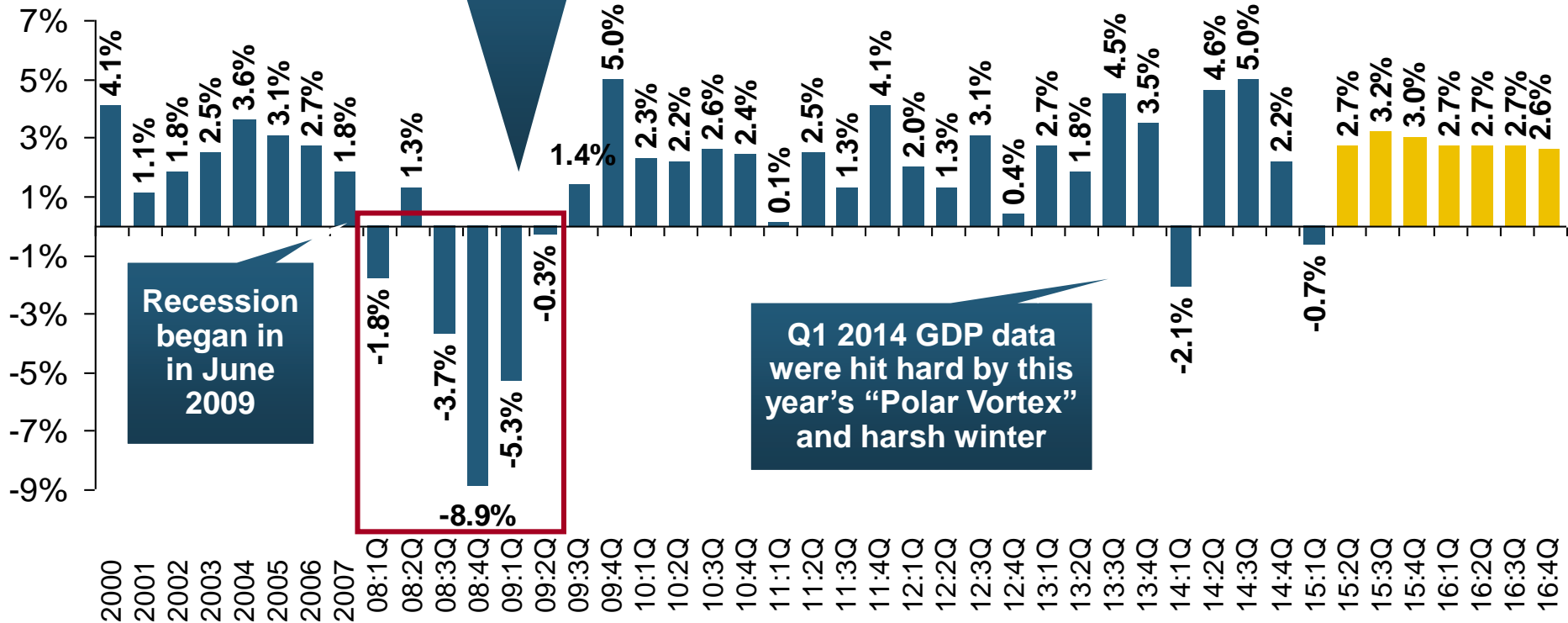
Sources: CoreLogic release "CoreLogic Identifies US States at Highest Risk of Property Damage Loss from Natural Hazards," Sept. 10, 2014; Insurance Information Institute.

The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

**Growth Will Expand Insurer Exposure
Base Across Most Lines**

US Real GDP Growth*

Real GDP Growth (%)



Demand for Insurance Should Increase in 2015 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

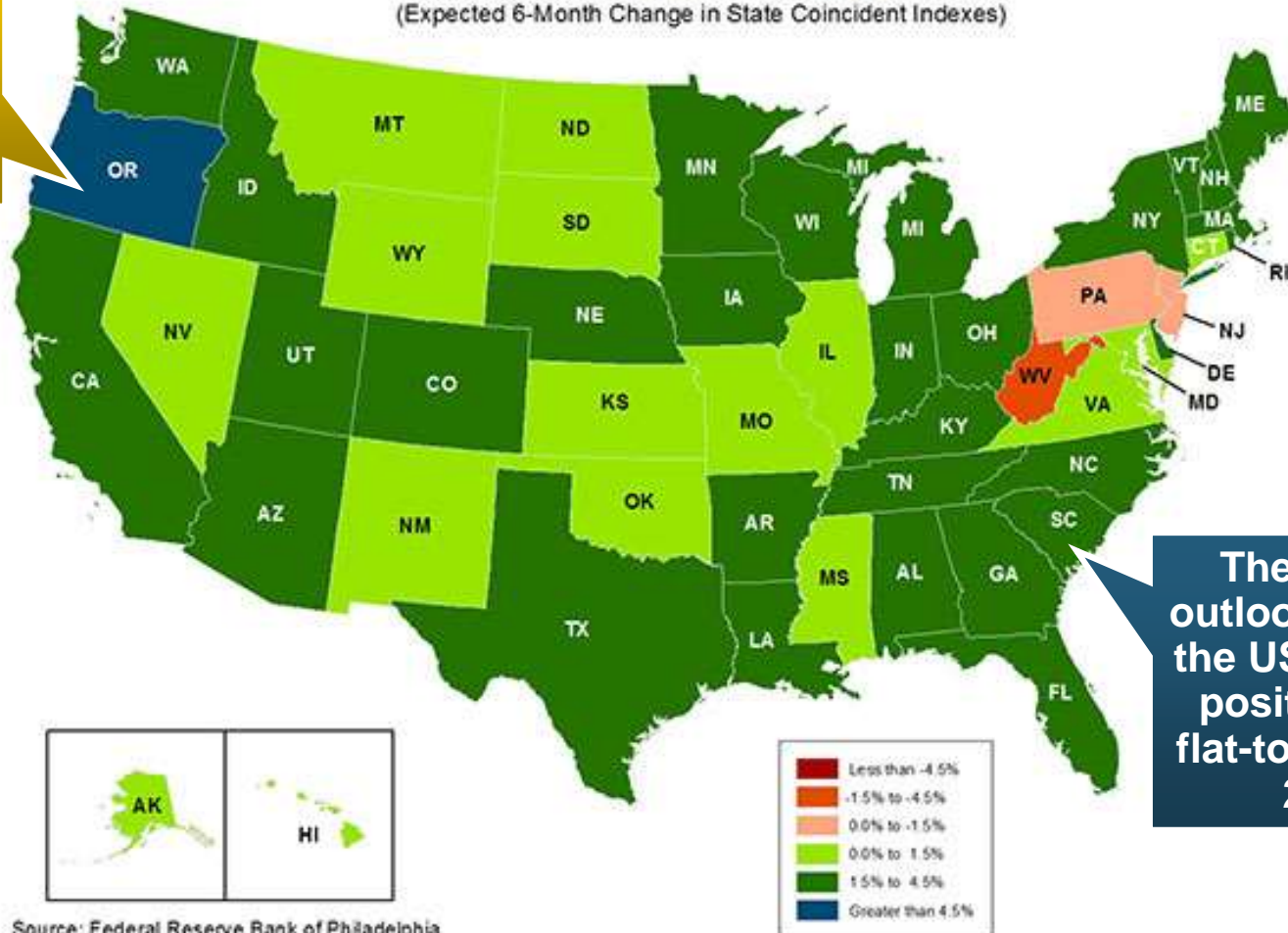
* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 6/15; Insurance Information Institute.

State-by-State Leading Indicators through August 2015

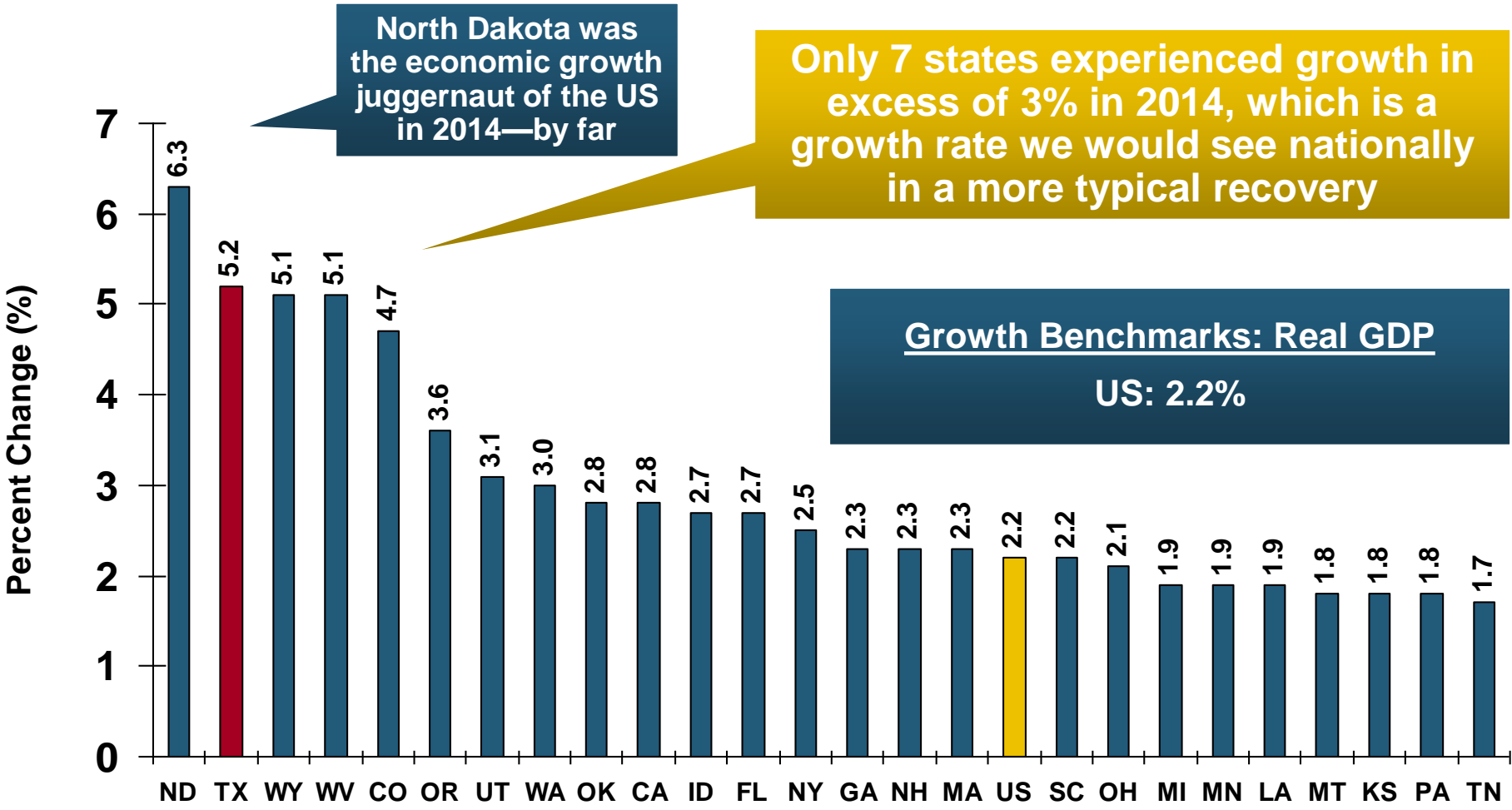
Growth in the West is finally beginning to pick up

February 2015 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)



The economic outlook for most of the US is generally positive, though flat-to-negative for 2 states

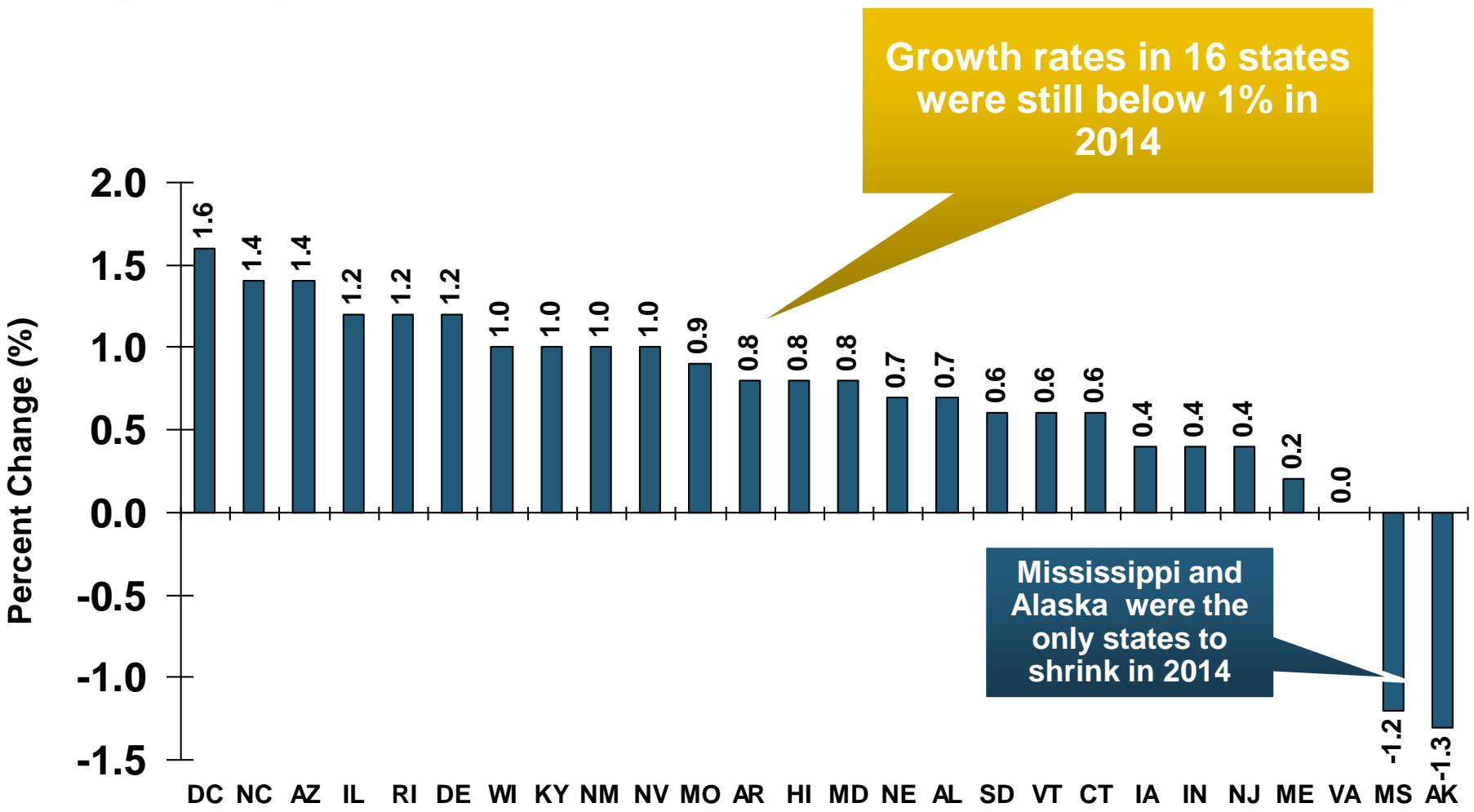
Real GDP by State Percent Change, 2014*: Highest 25 States



*Advance statistics

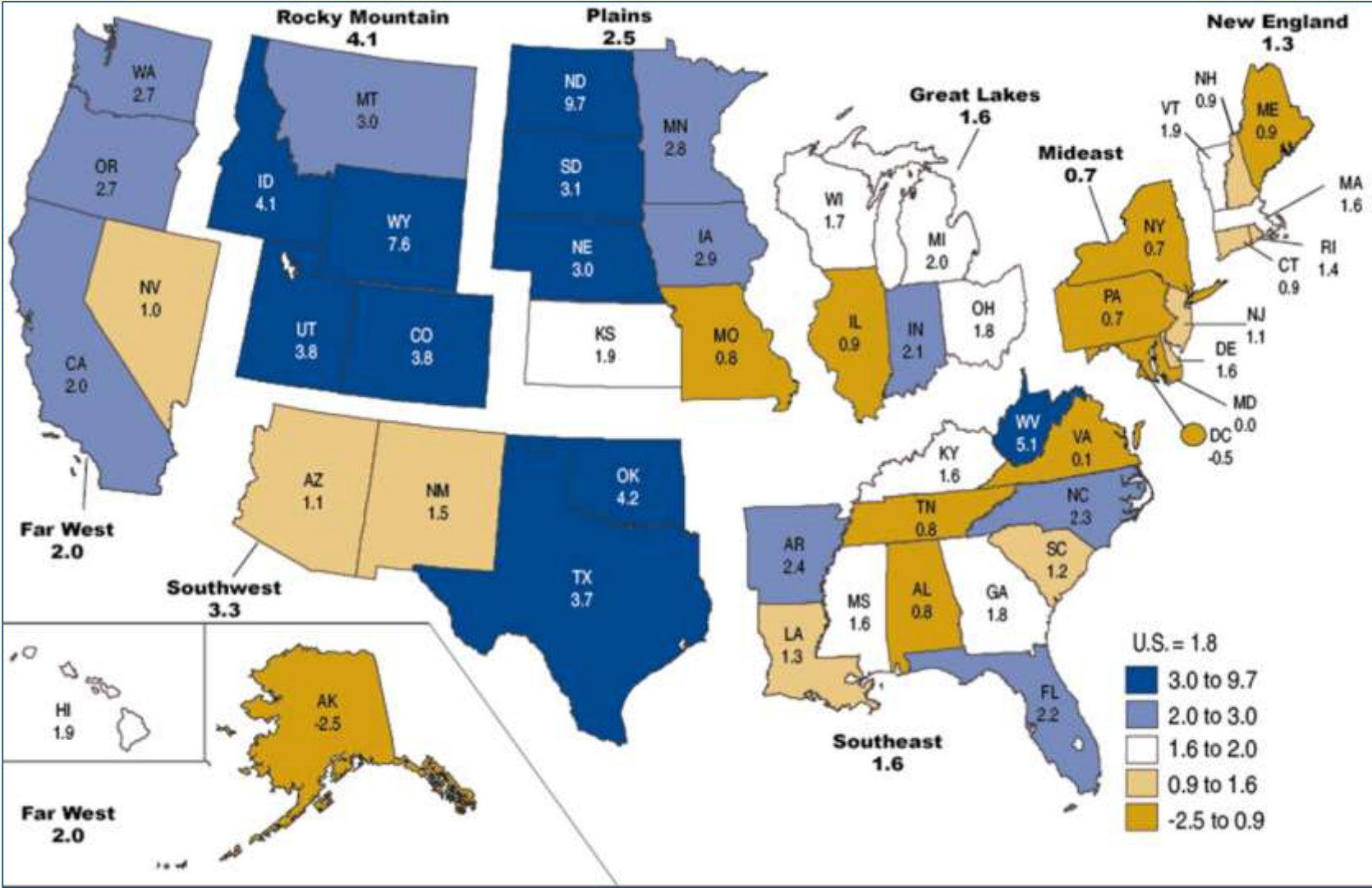
Sources: [U.S. Bureau of Economic Analysis](#); Insurance Information Institute.

Real GDP by State Percent Change, 2014*: Lowest 25 States



*Advance statistics
Sources: [US Bureau of Economic Analysis](#); Insurance Information Institute.

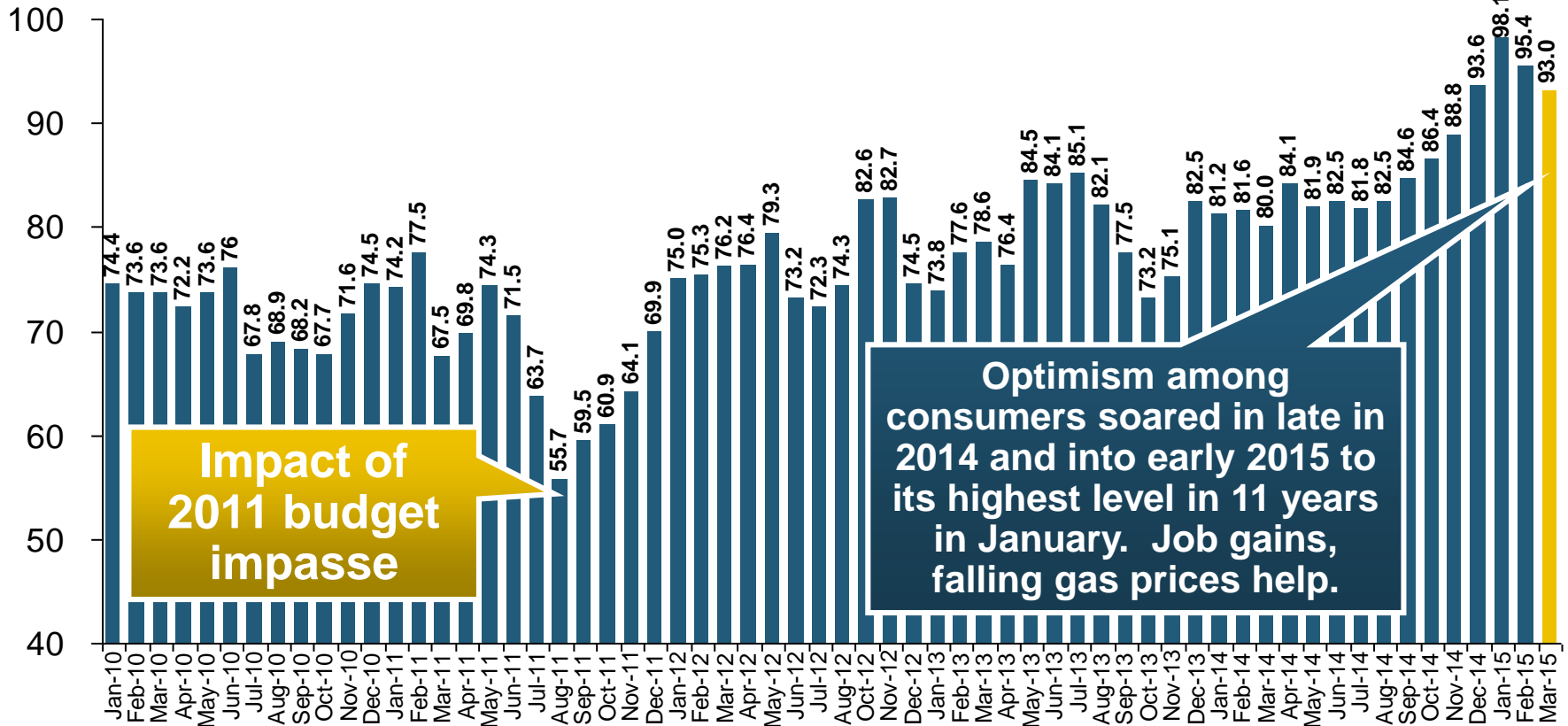
Percent Change in Real GDP by State, 2013



Sources: [US Bureau of Economic Analysis](#); Insurance Information Institute.

Consumer Sentiment Survey (1966 = 100)

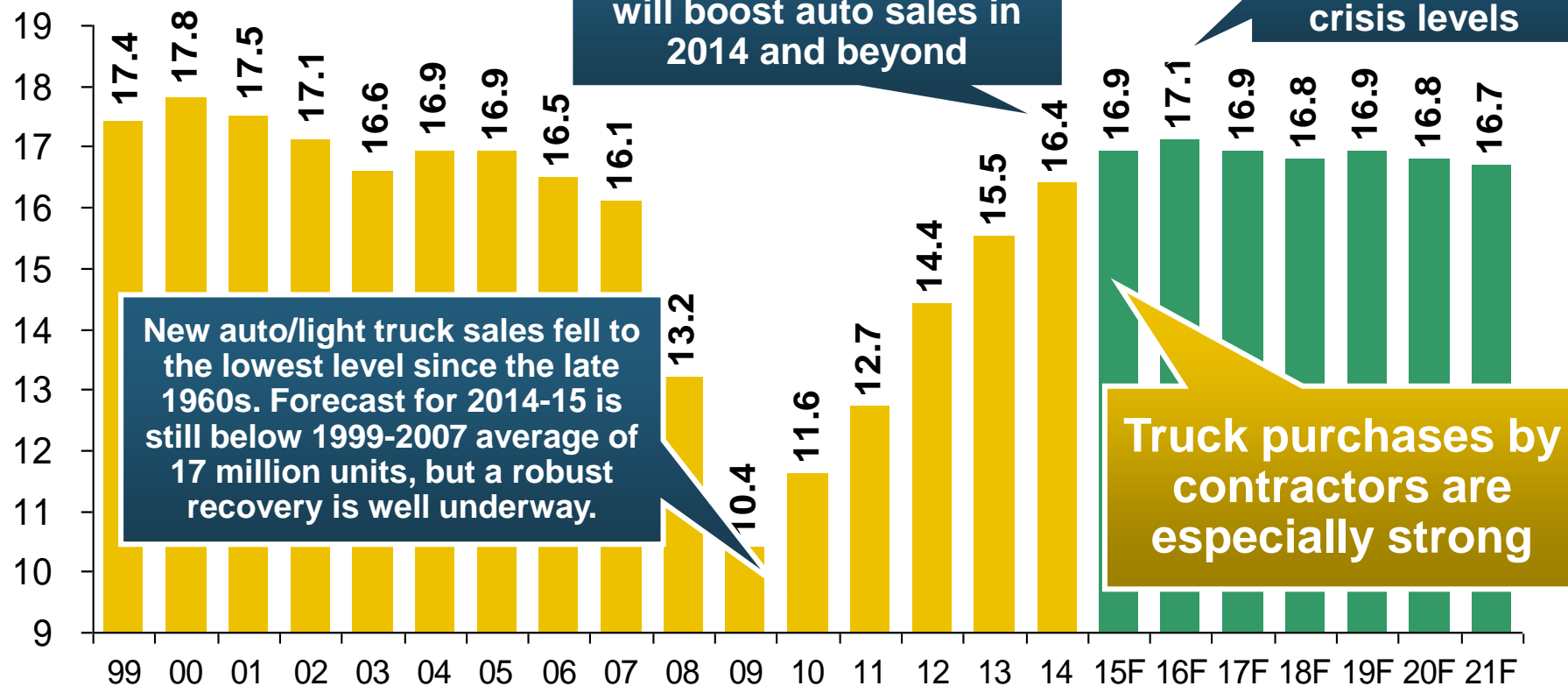
January 2010 through March 2015



Consumer confidence had been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past 2+ years, as job growth and falling energy prices aid consumers

Auto/Light Truck Sales, 1999-2021F

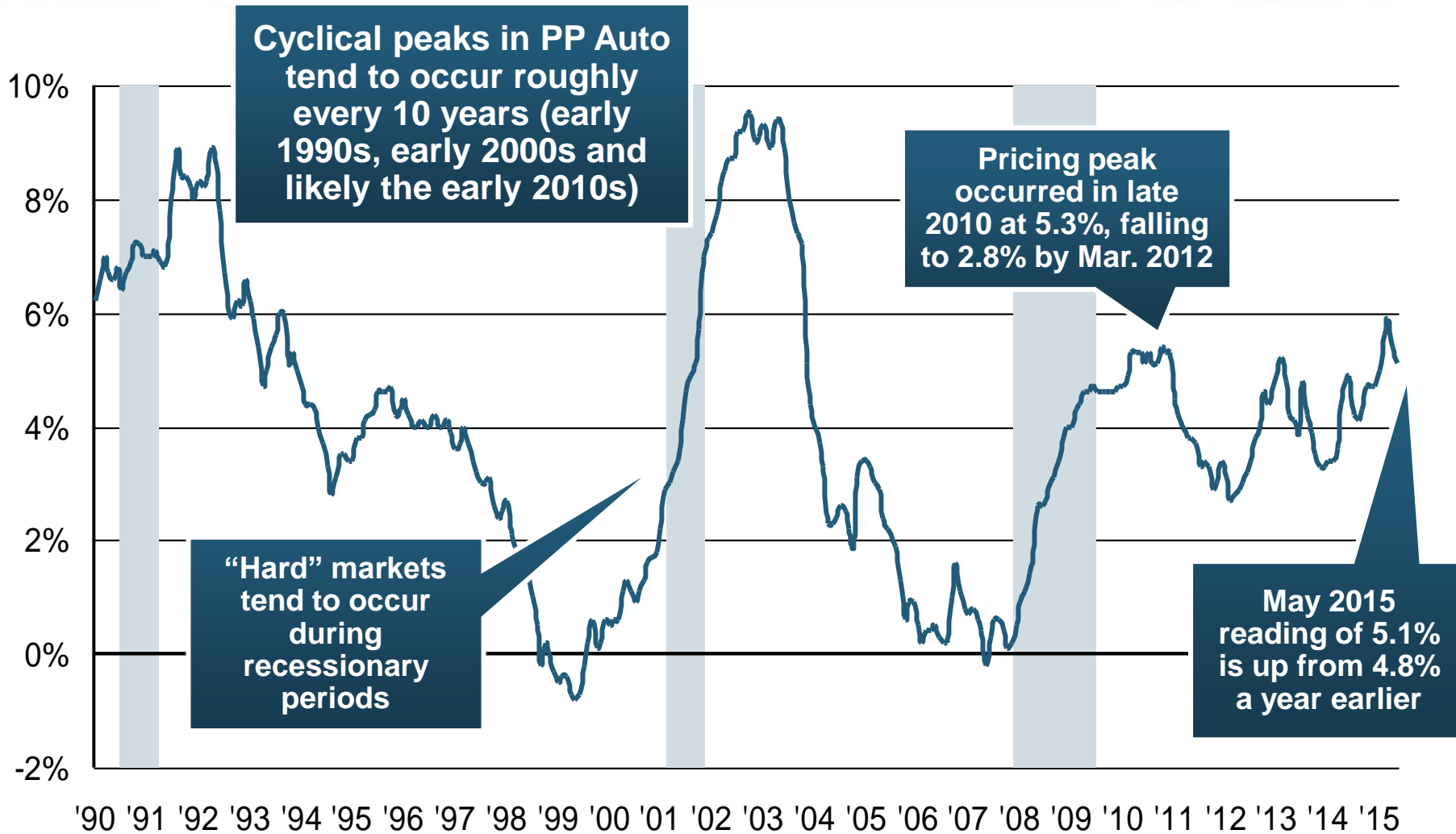
(Millions of Units)



Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 5% - 6%.

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (6/15 and 3/15); Insurance Information Institute.

Monthly Change in Auto Insurance Prices, 1991–2015*

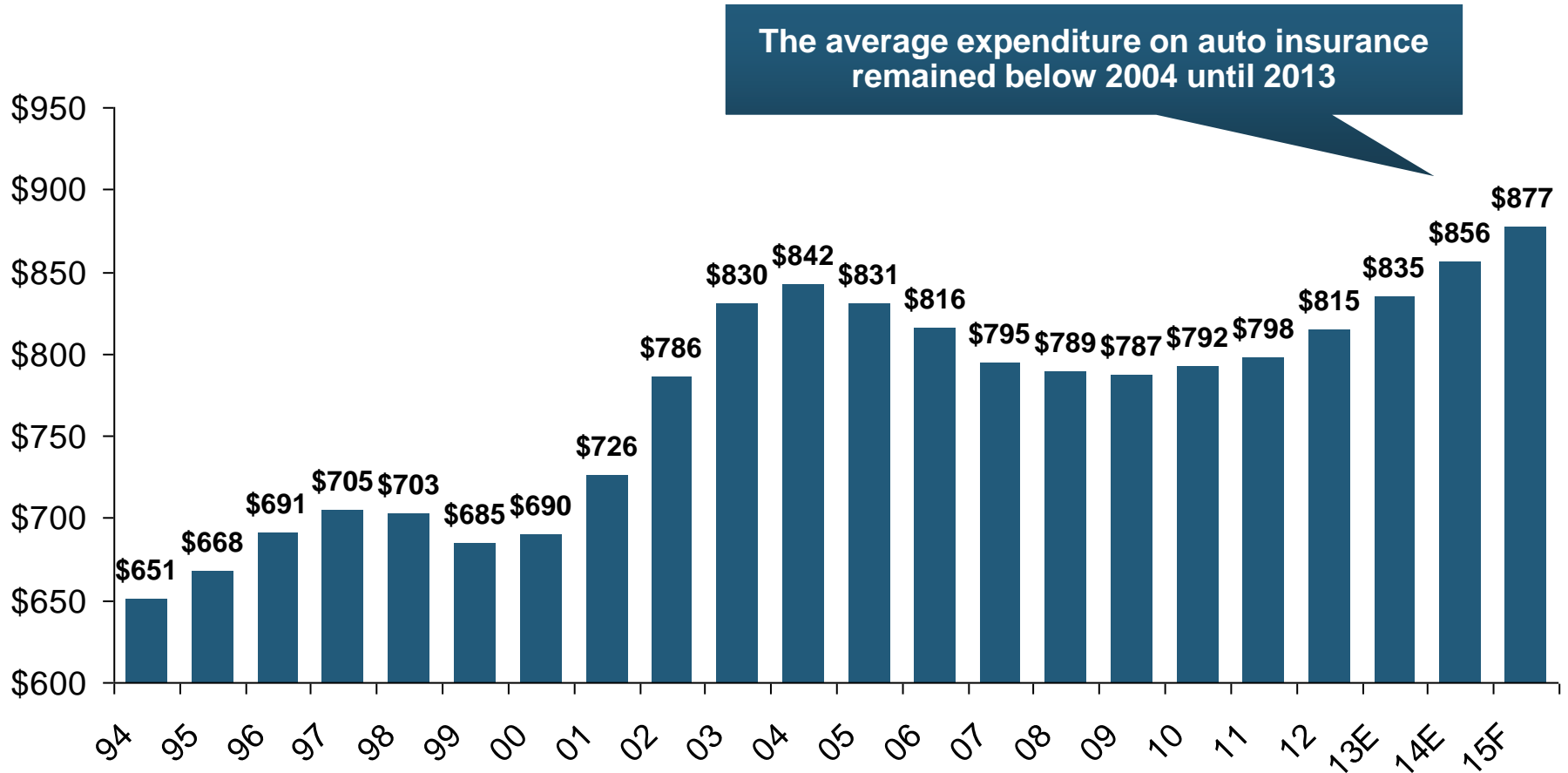


*Percentage change from same month in prior year; through May 2015; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Average Expenditures on Auto Insurance

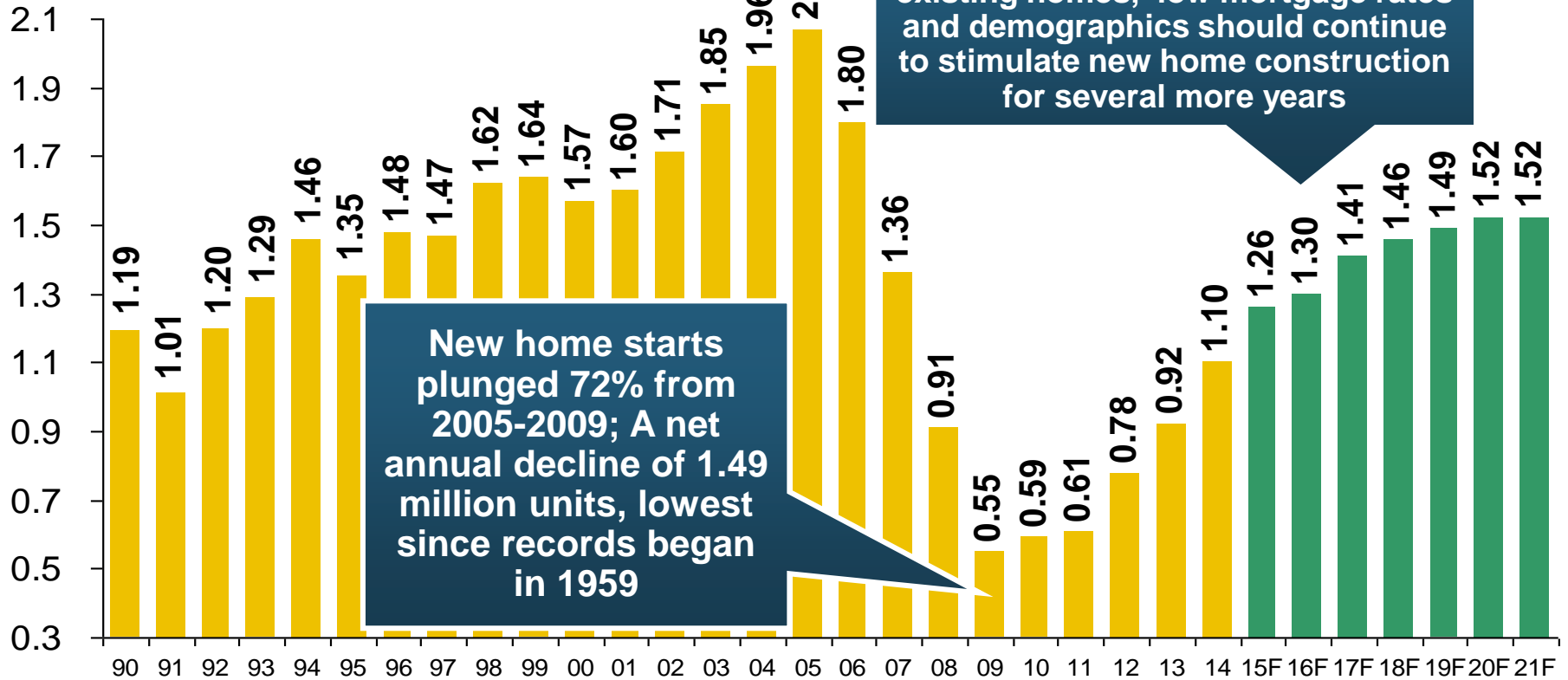


Countrywide Auto Insurance Expenditures decreased by 6.5% from 2004 through 2009, rising gradually since then with annual increases in the 2.0% to 2.5% range

* Insurance Information Institute Estimates/Forecasts
Source: NAIC, Insurance Information Institute estimate for 2013-2015 based on CPI and other data.

New Private Housing Starts, 1990-2021F

(Millions of Units)

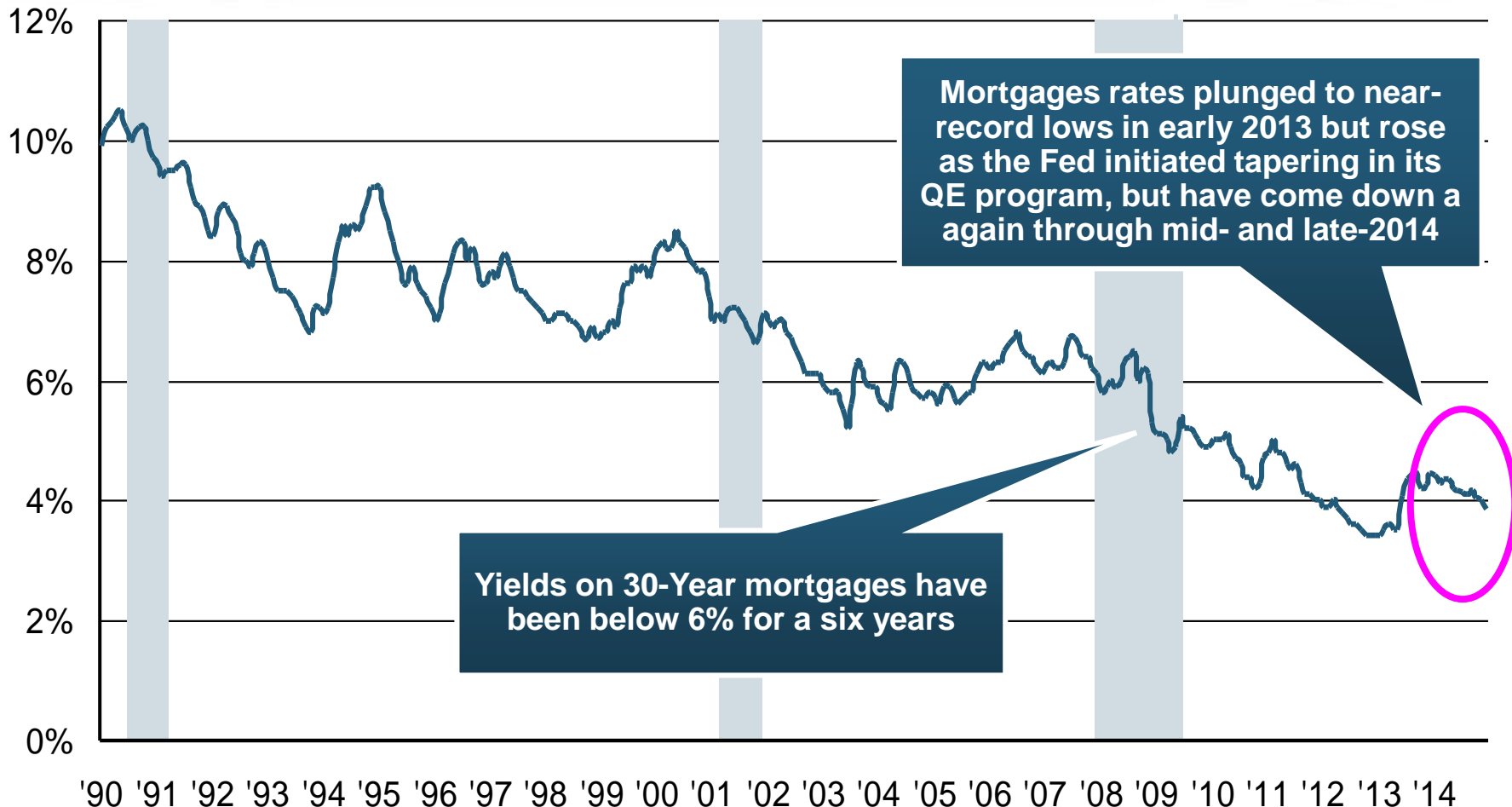


Job growth, low inventories of existing homes, low mortgage rates and demographics should continue to stimulate new home construction for several more years

New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959

Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Interest Rate on Convention 30-Year Mortgages: Up a Bit, 1990–2014*



Mortgage interest rates remain low by historical standards, aiding the housing recovery. Changes in Fed policy could push rates up modestly later in 2015.

*Monthly, through Dec. 2014.

Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.

National Bureau of Economic Research (recession dates); Insurance Information Institutes.

NFIB Small Business Optimism Index

January 1985 through May 2015

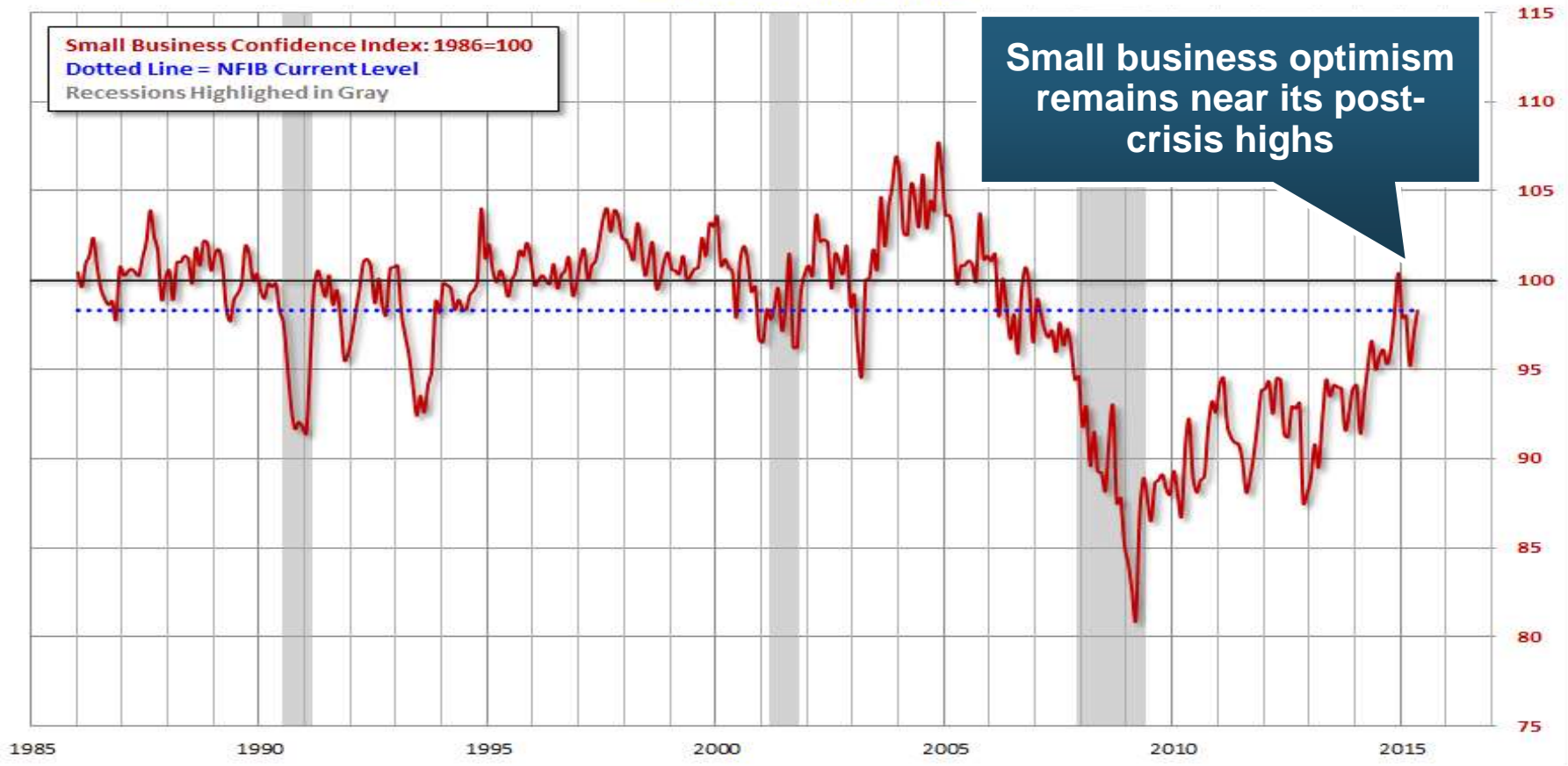
NFIB Small Business Optimism Index

dshort.com
June 2015
Data through May

..... Current Level is now at 98.3

Small Business Confidence Index: 1986=100
Dotted Line = NFIB Current Level
Recessions Highlighted in Gray

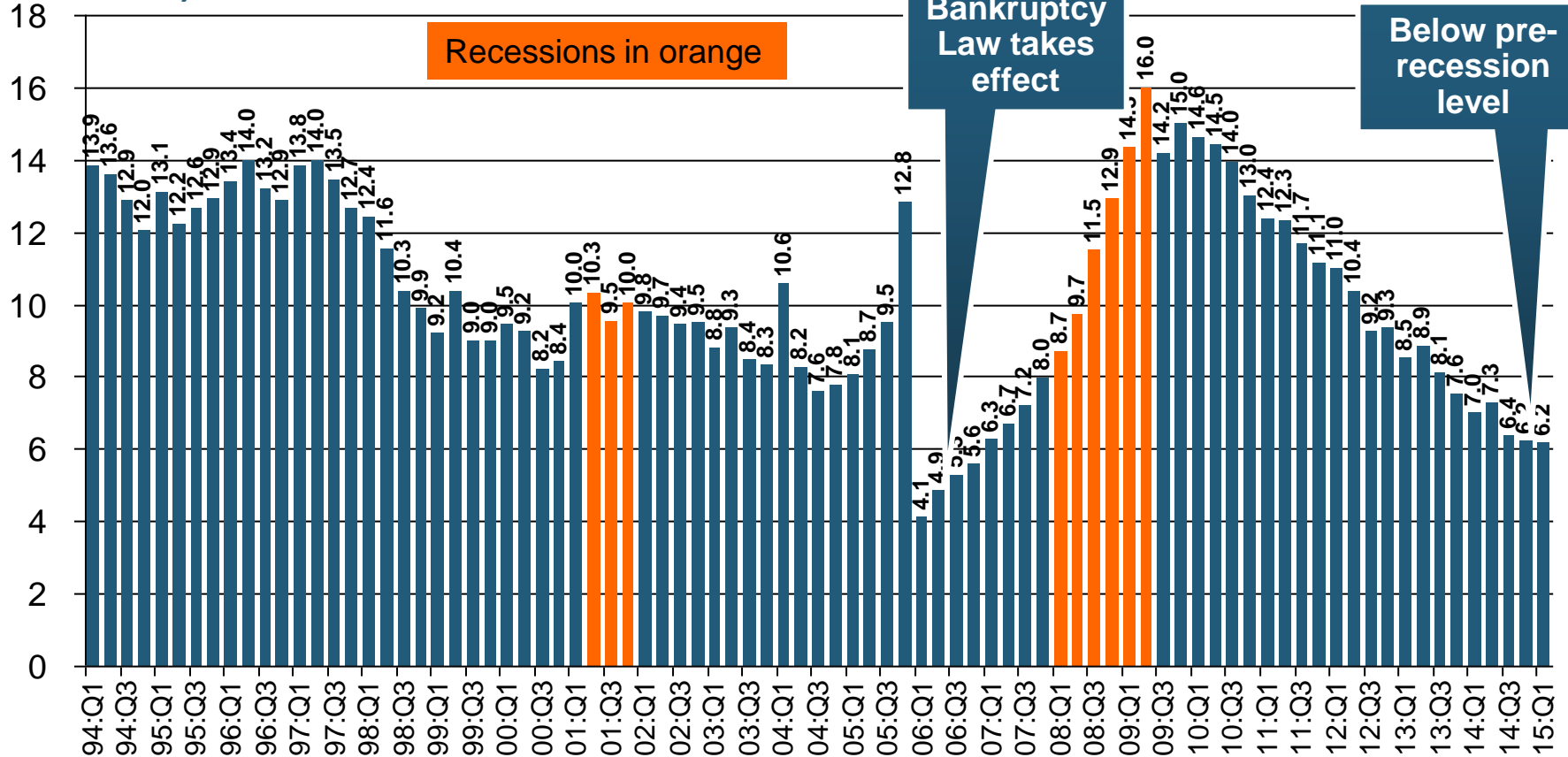
Small business optimism
remains near its post-
crisis highs



Business Bankruptcy Filings: Still Falling

(1994:Q1 – 2015:Q1)

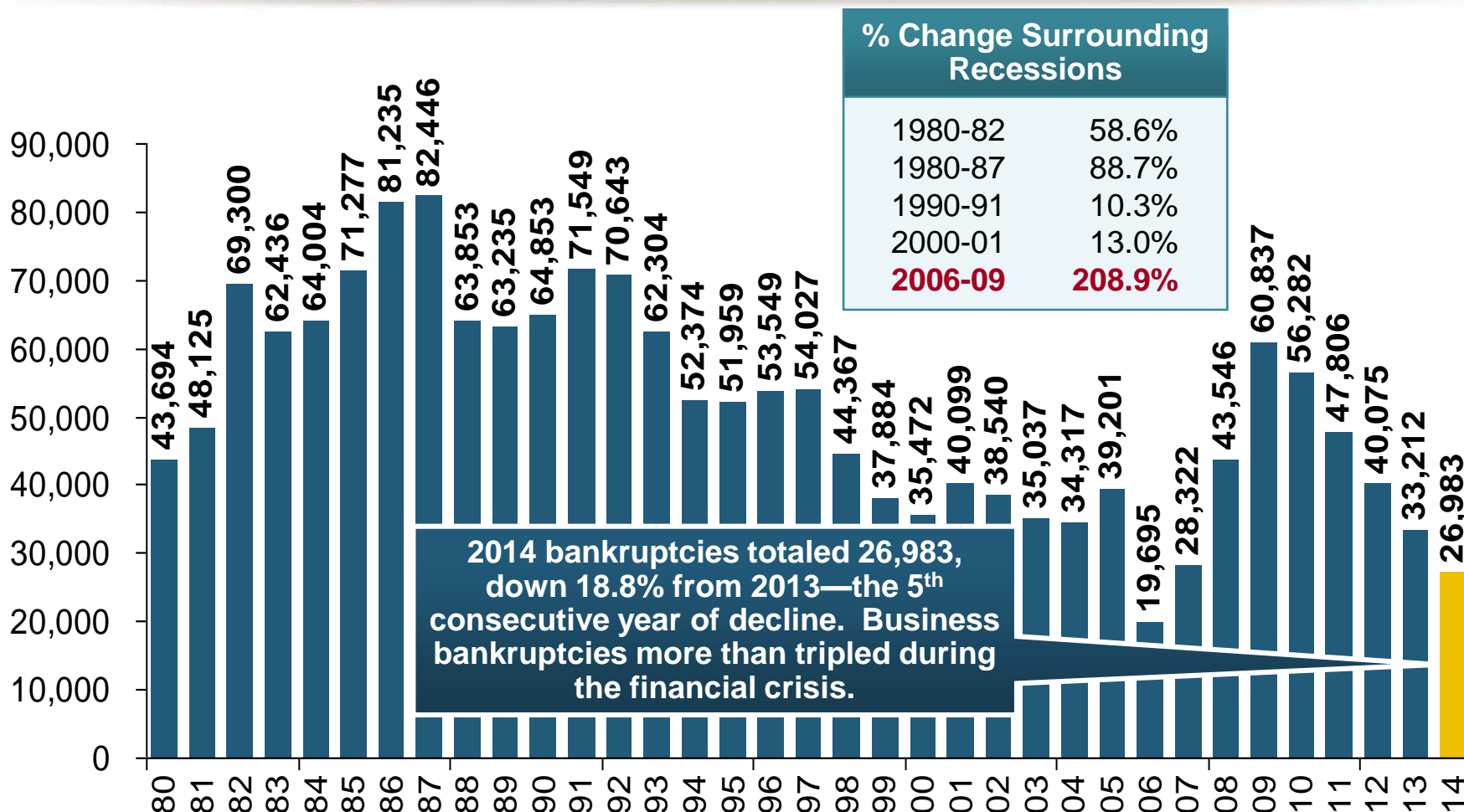
(Thousands)



Business bankruptcies in 2014-2015:Q1 were below both the Great Recession levels and the 2003:Q3-2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.

Sources: U.S. Courts Table F-2 at <http://www.uscourts.gov/statistics-reports/caseload-statistics-data-tables> ; Insurance Information Institute

Business Bankruptcy Filings, 1980-2014



Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Sources: American Bankruptcy Institute (1980-2012) at <http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633>; 2013-14 data from United States Courts at <http://news.uscourts.gov>; Insurance Information Institute.

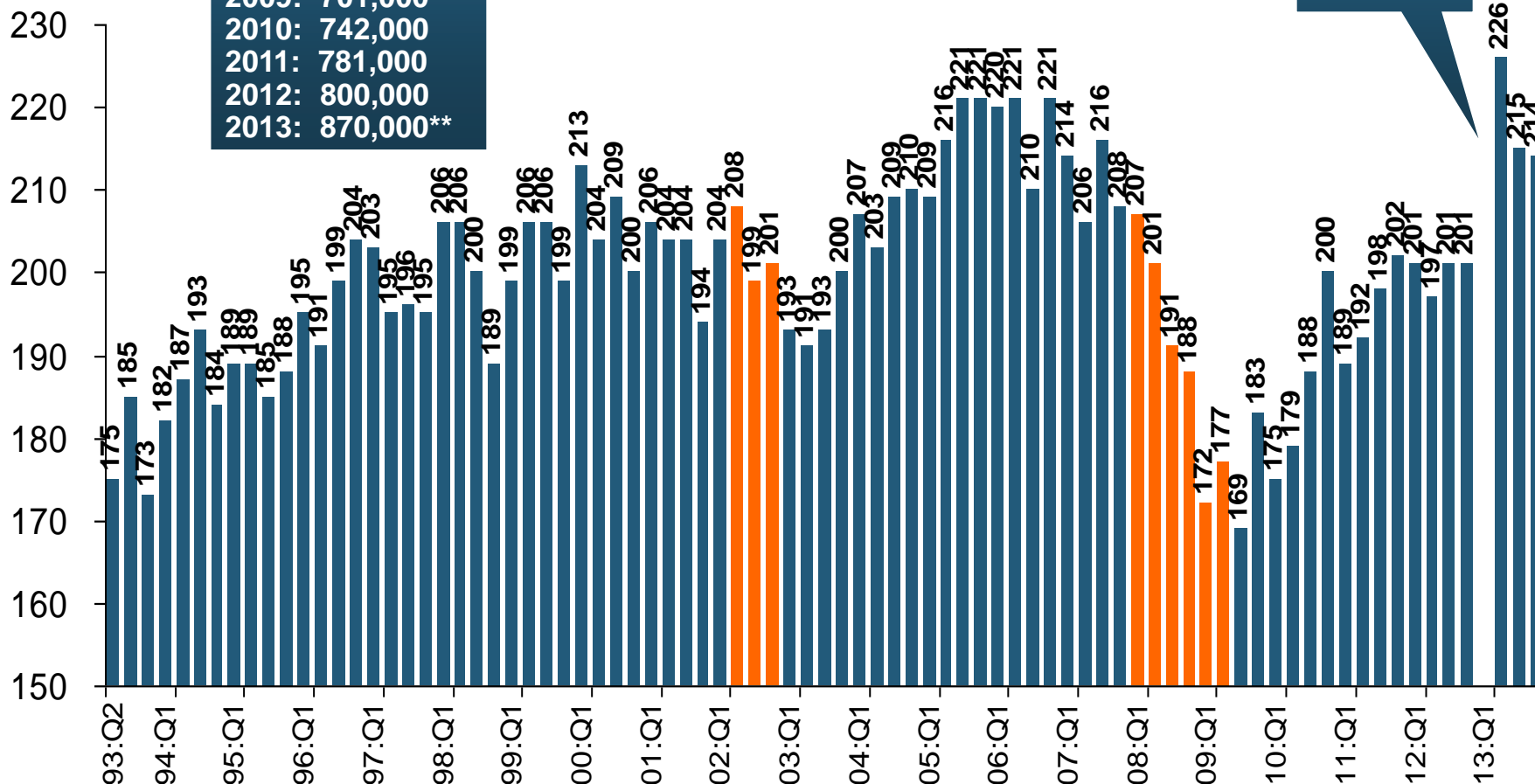
Private Sector Business Starts: 1993:Q2 – 2013:Q4* As Strong as Ever?

Recessions in orange

2013:Q1
578,000
business
starts*

Business Starts	
2006:	861,000
2007:	844,000
2008:	787,000
2009:	701,000
2010:	742,000
2011:	781,000
2012:	800,000
2013:	870,000**

Thousands

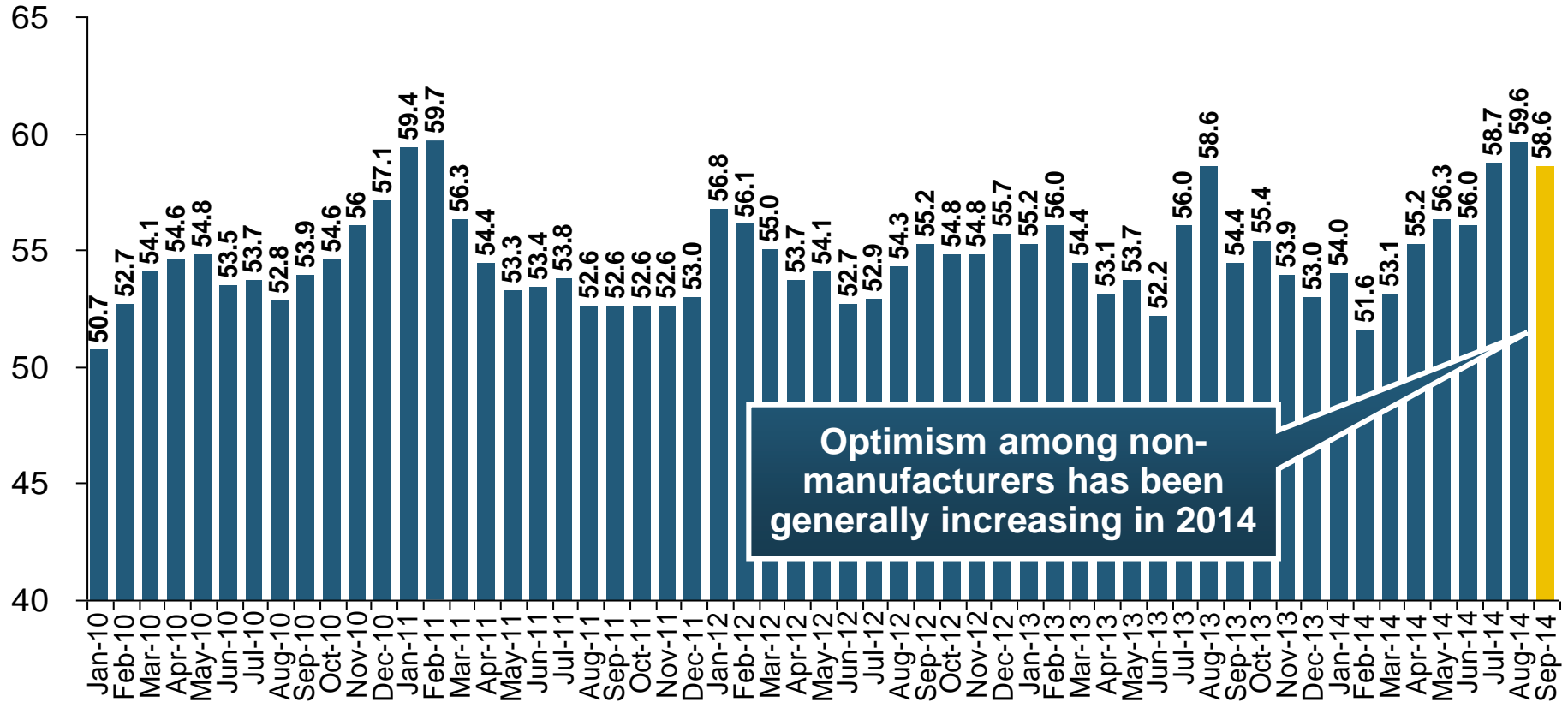


*Data posted Apr 29, 2014, the latest available; a classification change in 2013:Q1 resulted in a report of 578,000 businesses started in that quarter. Seasonally adjusted. **2014 number assumes 1st quarter equaled average of other three quarters

Sources: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>. NBER (recession dates)

ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through September 2014



Optimism among non-manufacturers has been generally increasing in 2014

Non-manufacturing industries have been expanding and adding jobs. This trend is likely to continue through 2014.

12 Industries for the Next 10 Years: Insurance Solutions Needed

Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Petrochemical

Agriculture

Natural Resources

Technology (incl. Biotechnology)

Light Manufacturing

Inourced Manufacturing

Export-Oriented Industries

Shipping (*Rail*, *Marine*, Trucking, *Pipelines*)



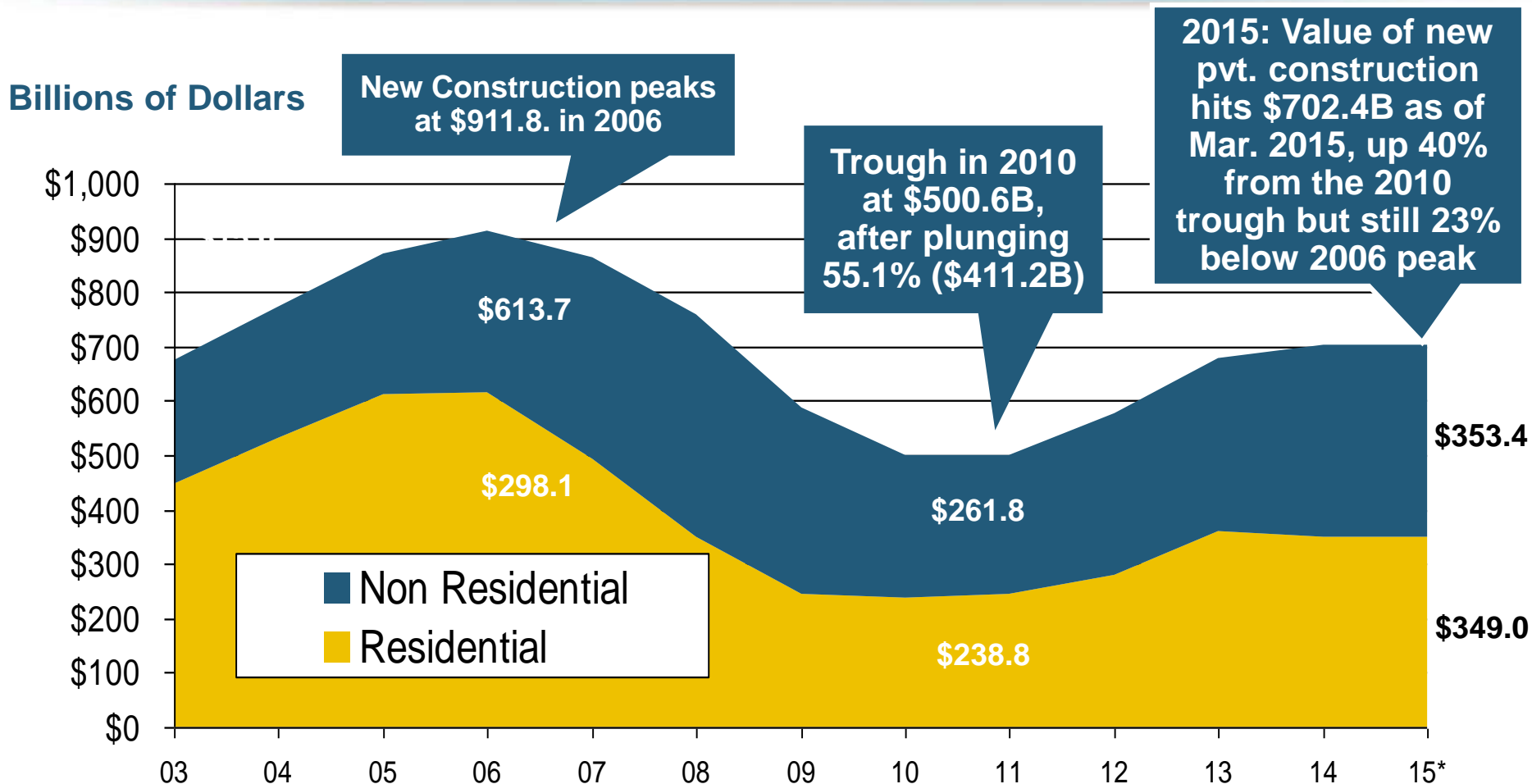
Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely



CONSTRUCTION INDUSTRY OVERVIEW & OUTLOOK

**The Construction Sector Is
Critical to the Economy and
the P/C Insurance Industry**

Value of New Private Construction: Residential & Nonresidential, 2003-2015*



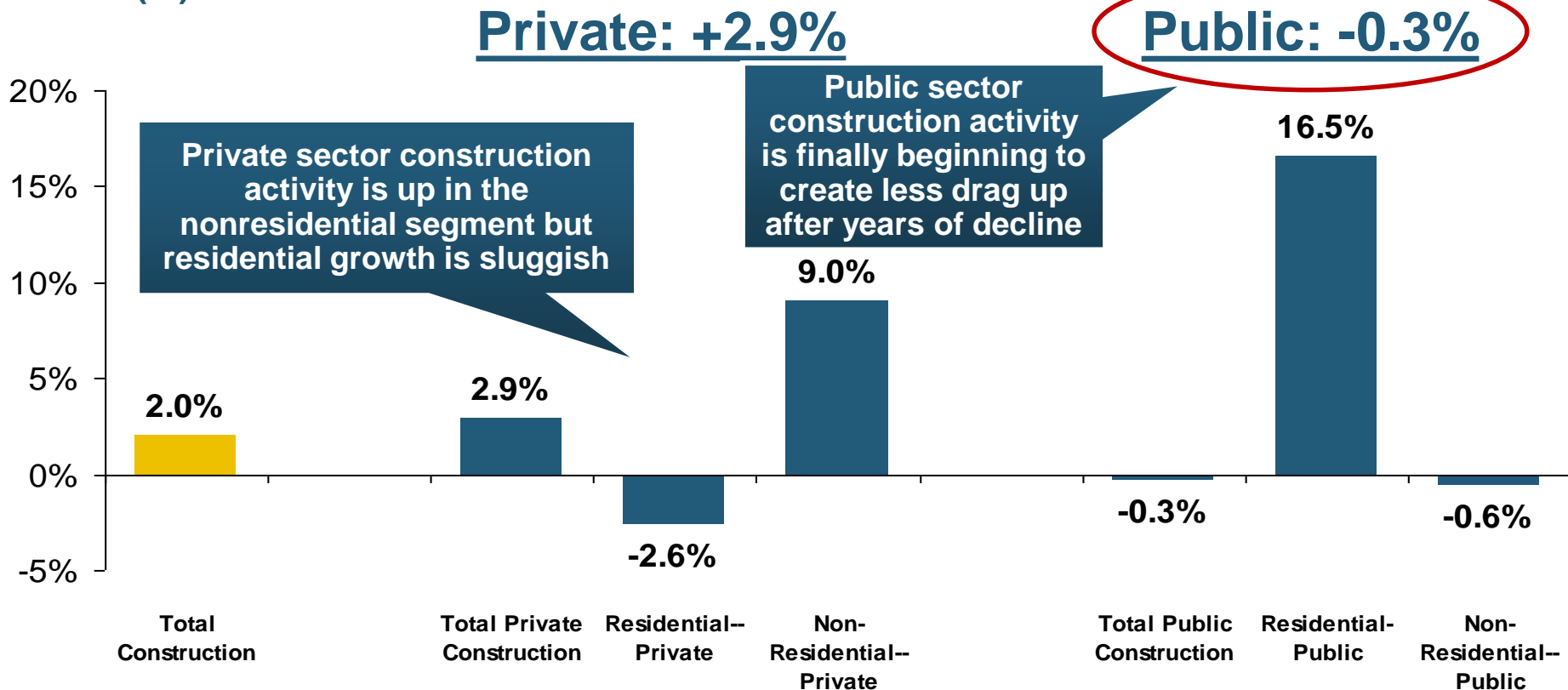
Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*2015 figure is a seasonally adjusted annual rate as of March.

Sources: US Department of Commerce <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Construction Put in Place, March 2015 vs. March 2014*

Growth (%)



Overall Construction Activity is Up, But Growth In the Private Sector Slowed in Late 2014 While Picking Up in the State/Local Sector Government Sector as Budget Woes Ease in Some Jurisdictions

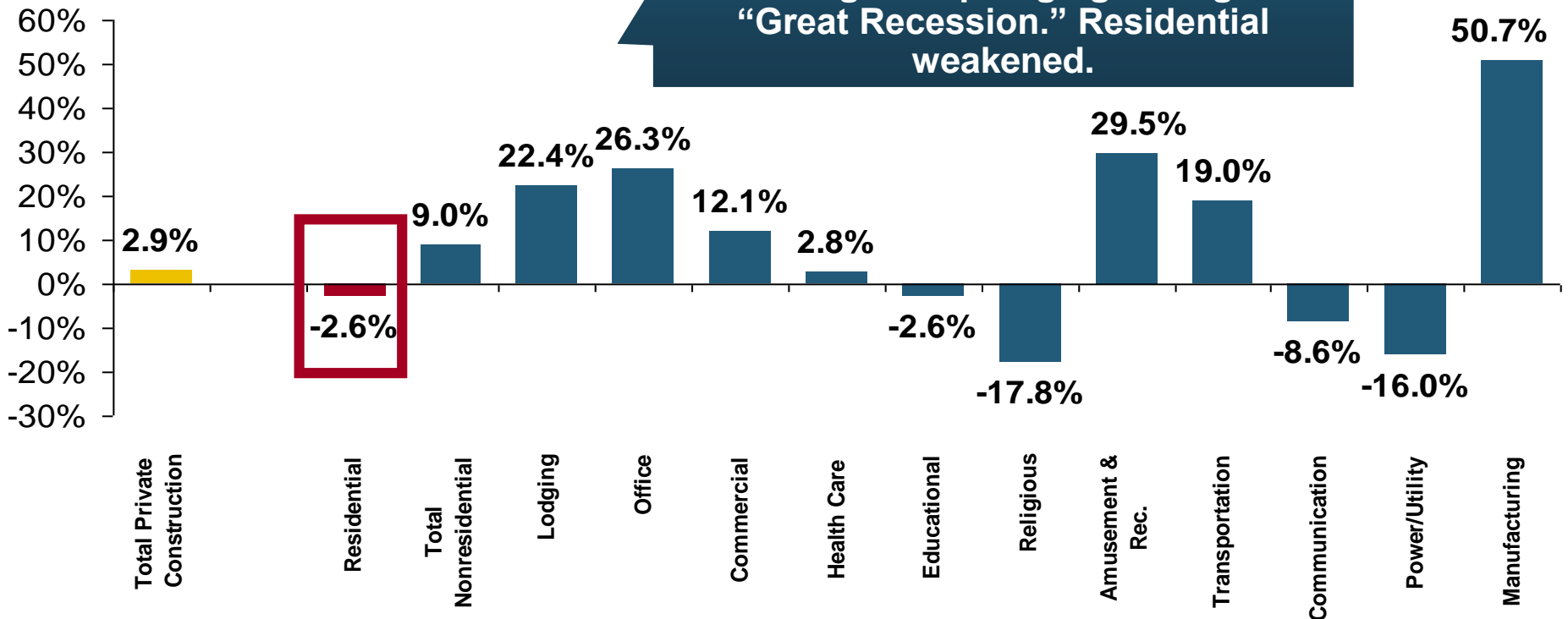
*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Private Construction Put in Place, by Segment, Mar. 2015 vs. Mar. 2014*

Growth (%)

Led by the Manufacturing and Office segments, Private nonresidential sector construction activity continues to rising after plunging during the “Great Recession.” Residential weakened.

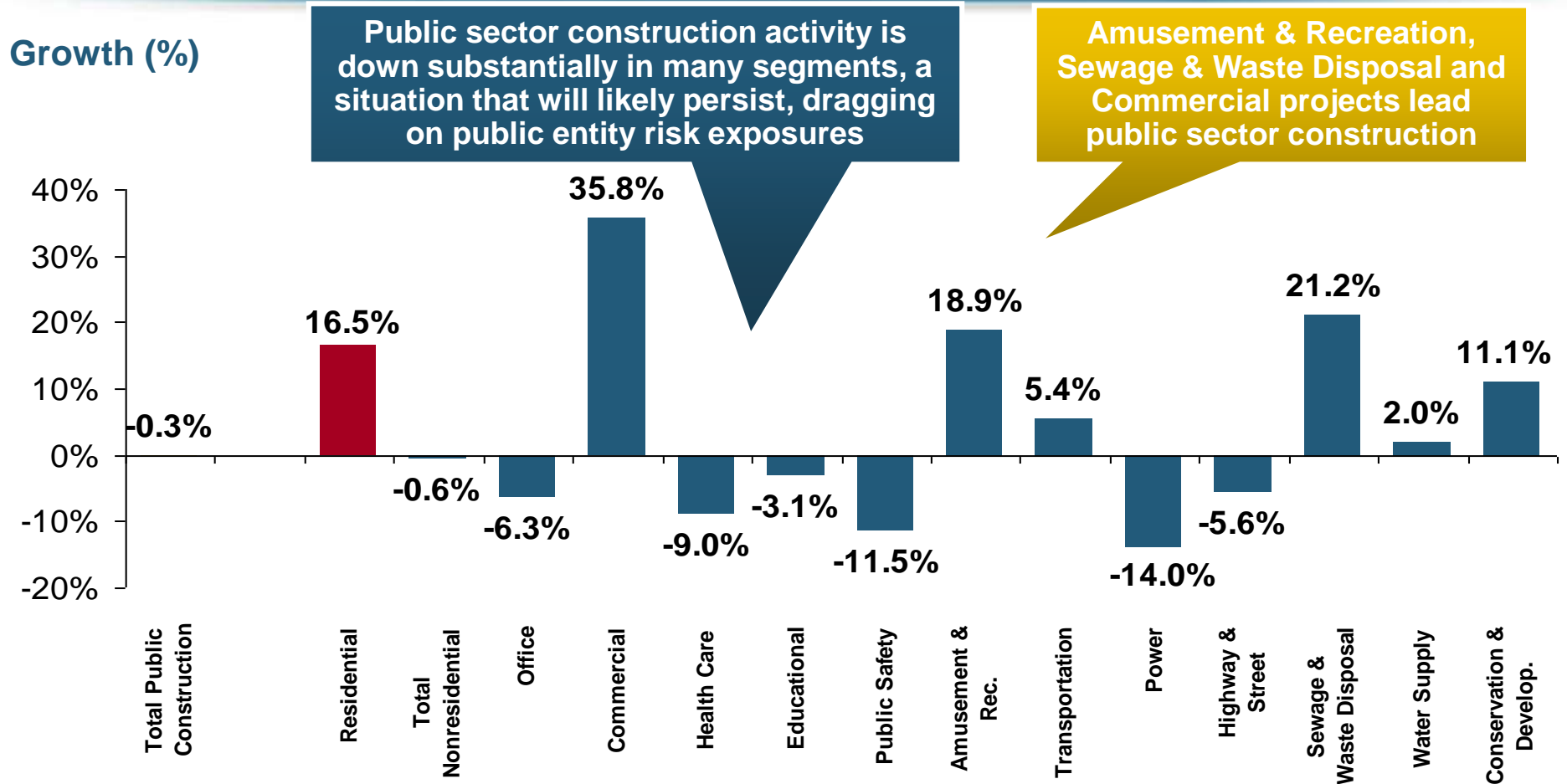


Private Construction Activity is Up in Many Segments, though the Key Residential Construction Sector Weakened in Late 2014/Early 2015; Mixed Outlook for 2015, though Expansion Should Continue

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Public Construction Put in Place, by Segment, Mar. 2015 vs. Mar. 2014*

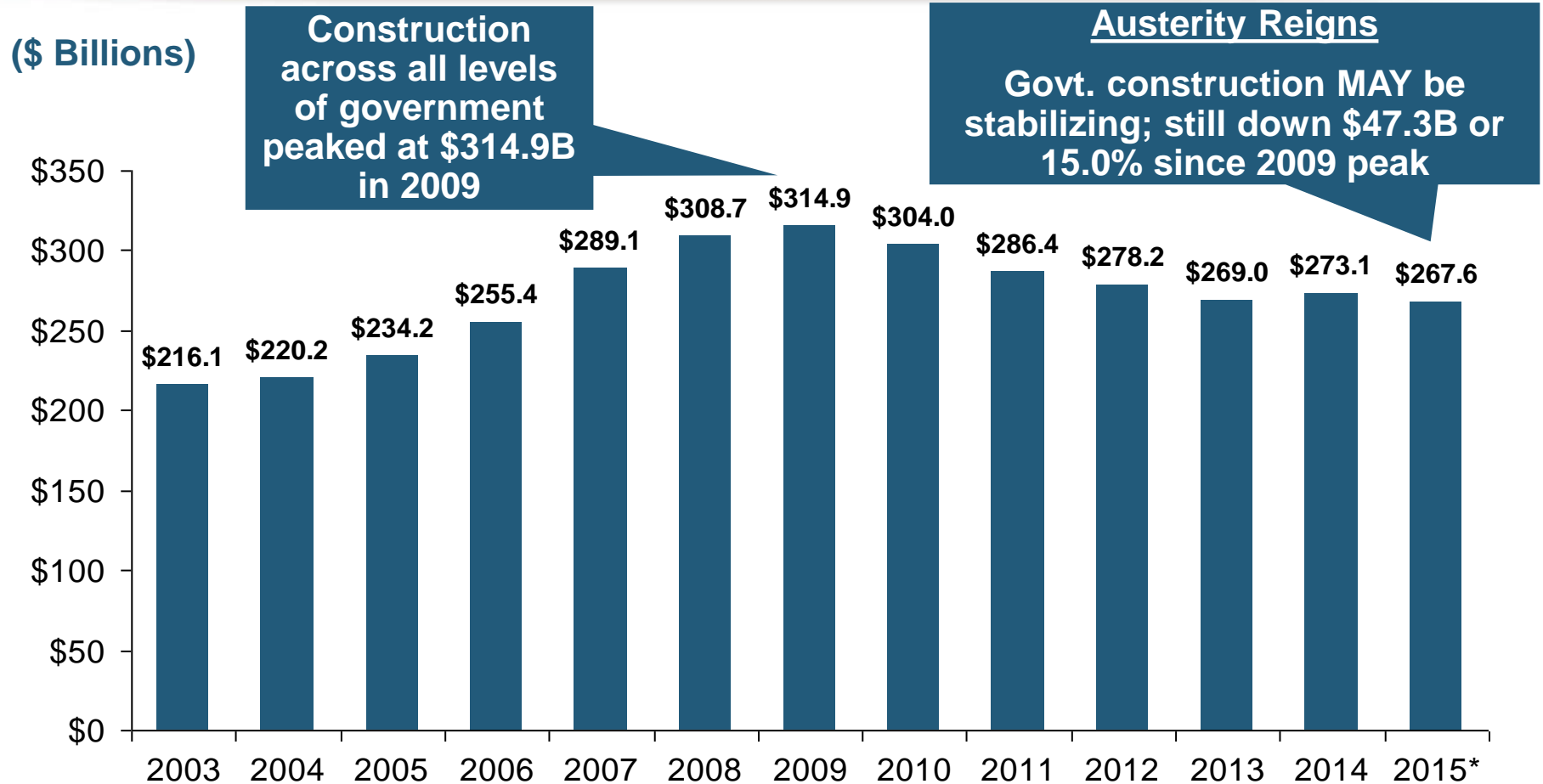


Public Construction Activity is Beginning to Recover from its Long Contraction which Will Drive Demand in Many Commercial Insurance Lines

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of New Federal, State and Local Government Construction: 2003-2015*



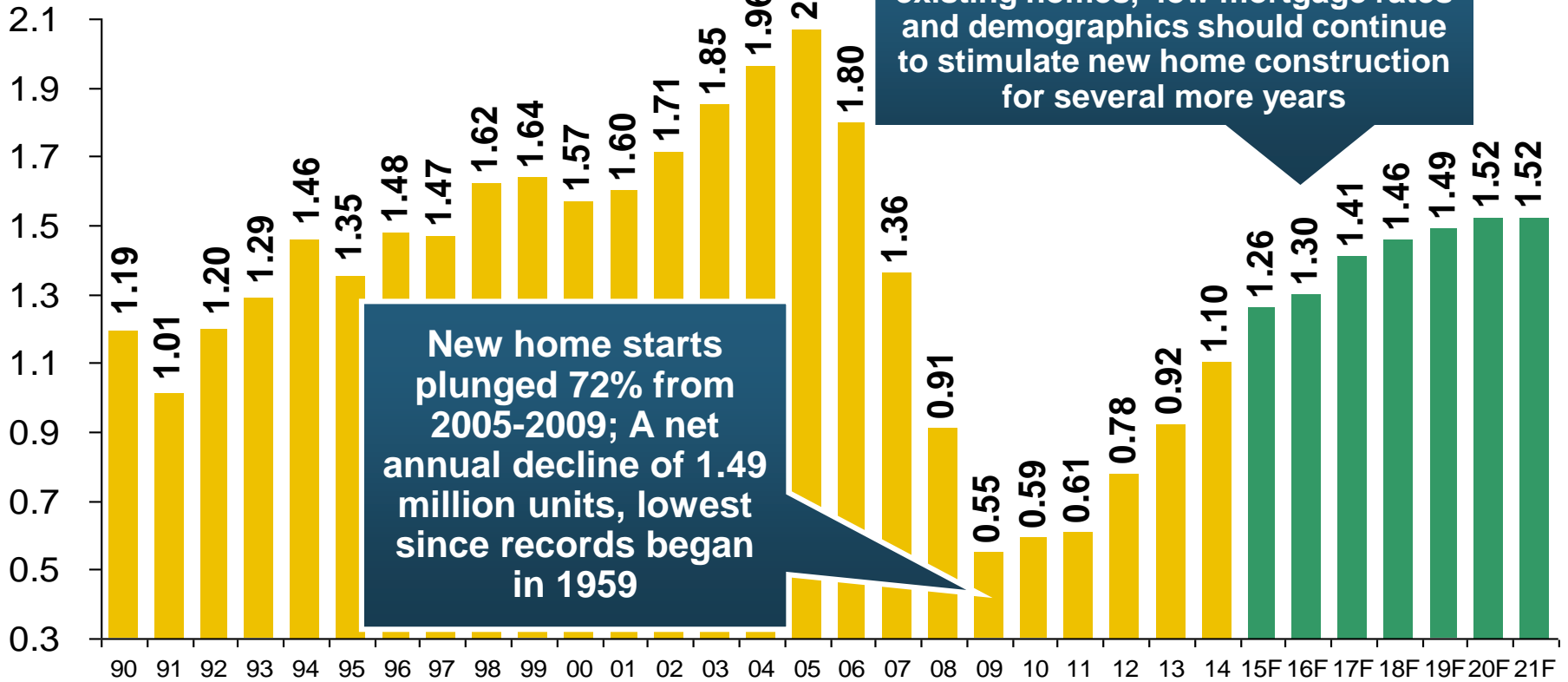
Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Contracted As State/Local Governments Grappled with Deficits and Federal Sequestration

*2015 figure is a seasonally adjusted annual rate as of March; http://www.census.gov/construction/c30/historical_data.html

Sources: US Department of Commerce; Insurance Information Institute.

New Private Housing Starts, 1990-2021F

(Millions of Units)



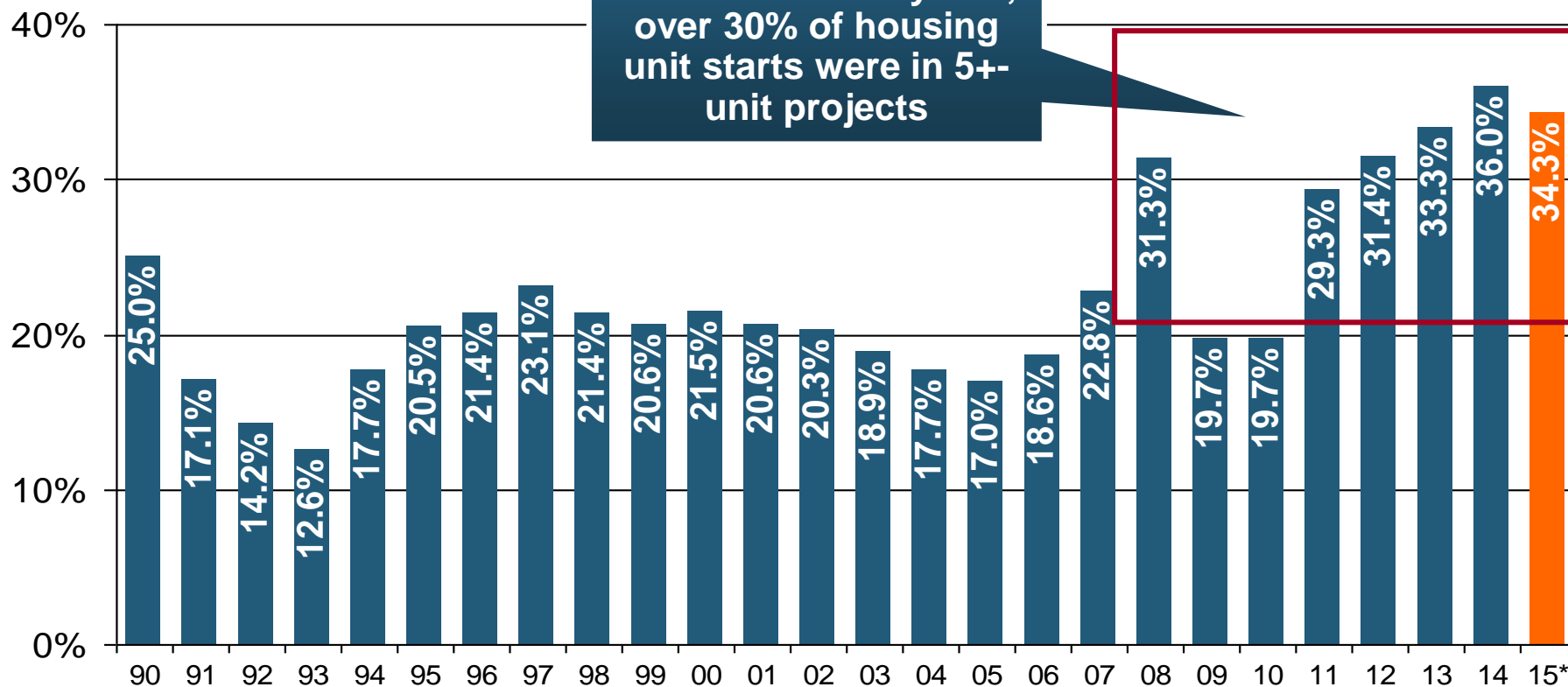
Job growth, low inventories of existing homes, low mortgage rates and demographics should continue to stimulate new home construction for several more years

New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959

Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

U.S.: Pct. Of Private Housing Unit Starts In Multi-Unit Projects, 1990-2015

Units in Multiple-Unit Projects as Percent of Total

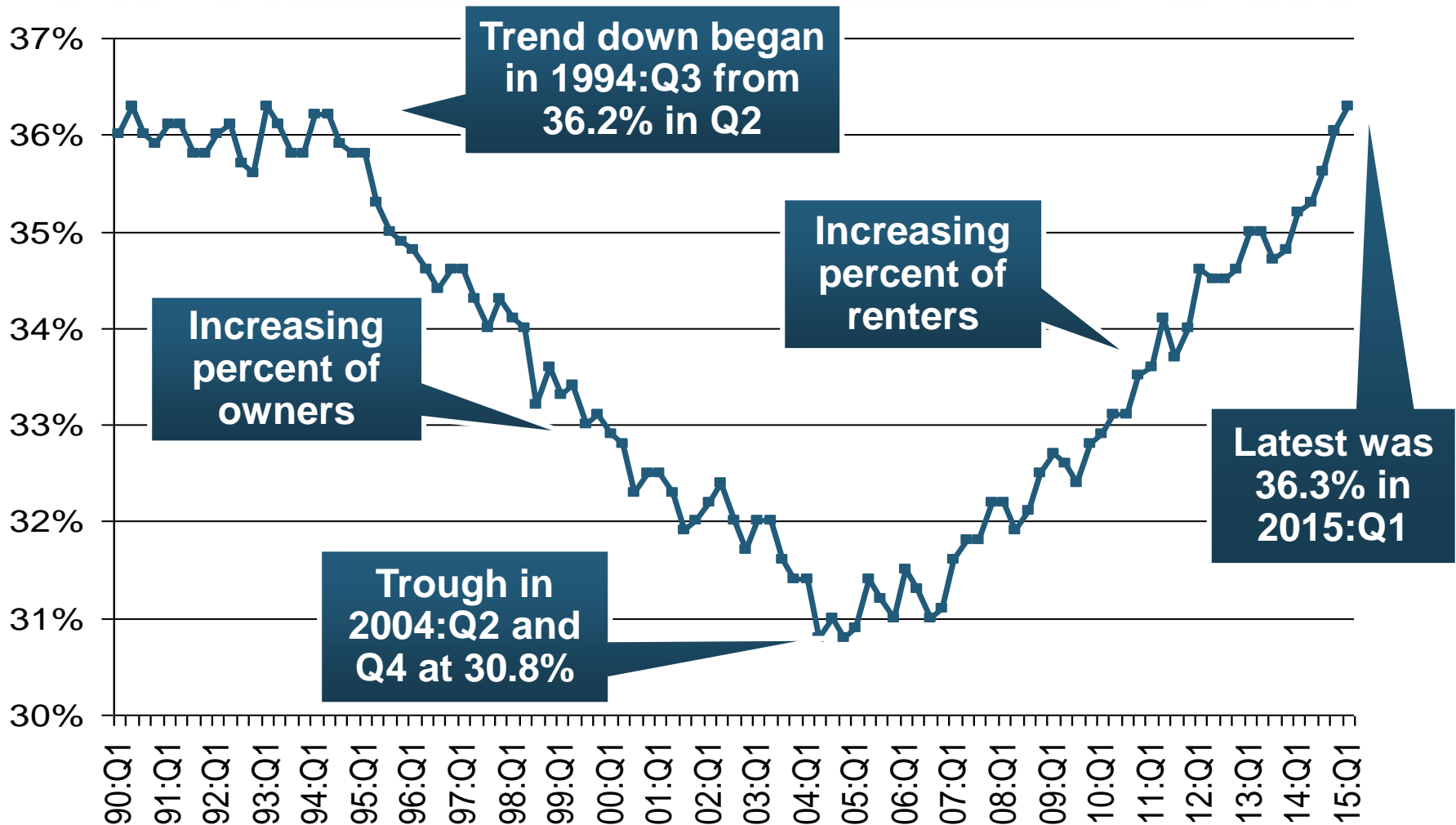


A NEW NORMAL?
In 5 of the last 7 years, over 30% of housing unit starts were in 5+ unit projects

For the U.S. as a whole, the trend toward multi-unit housing projects (vs. single-unit homes) is recent. Commercial insurers with Workers Comp, Construction risk exposure, and Surety benefit.

*January through April 2015; April is preliminary; calculations based on seasonally adjusted at annual rates
Sources: U.S. Census Bureau, New Residential Construction in April 2015 and earlier releases; next release June 16, 2015; Insurance Information Institute calculations.

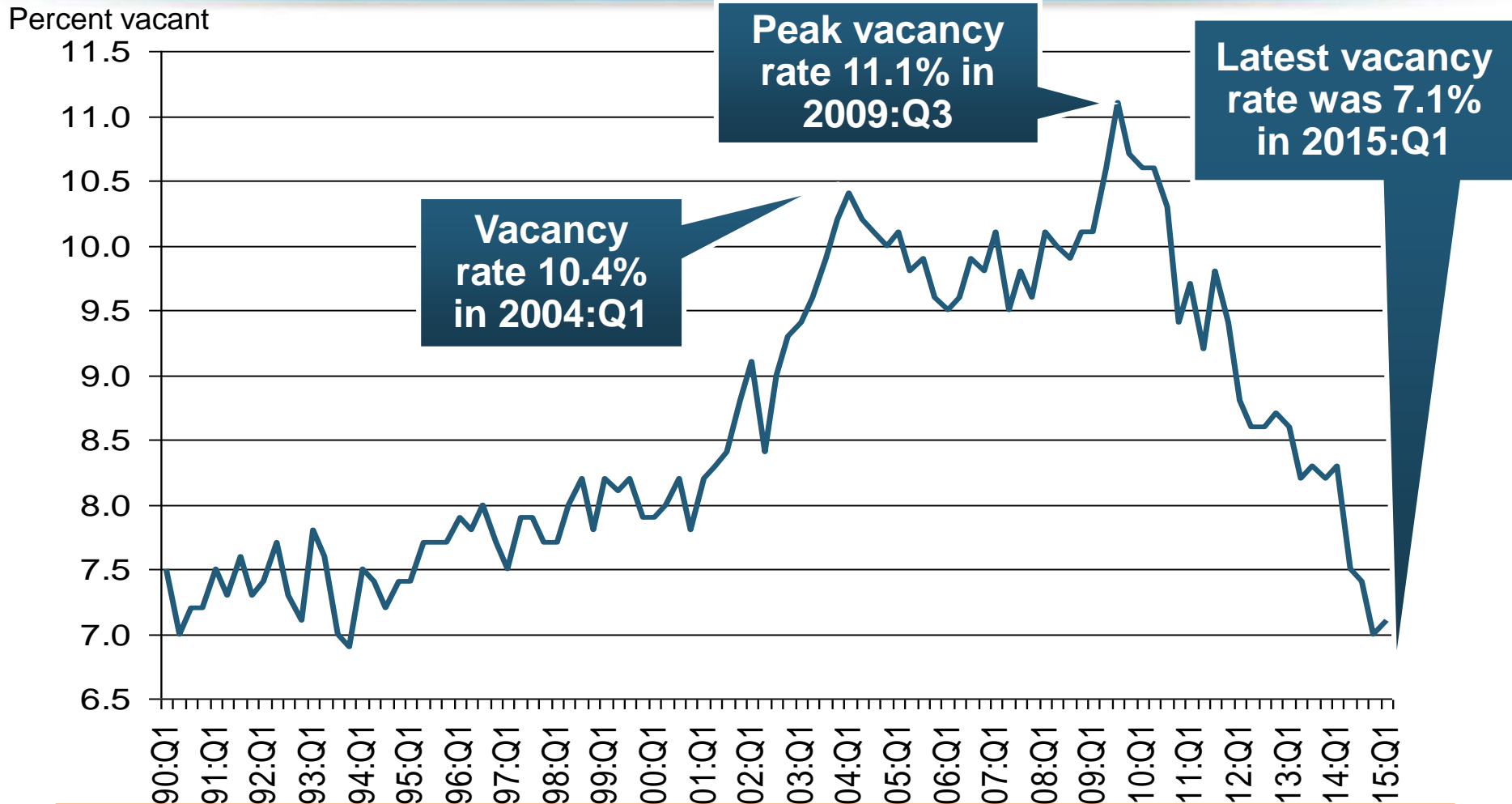
Rental-Occupied Housing Units as % of Total Occupied Units, Quarterly, 1990:Q1-2015:Q1



Since the Great Recession ended in June 2009, renters occupied 5.7 million more units (+15.6%).

Sources: US Census Bureau, *Residential Vacancies & Home Ownership in the First Quarter of 2015* (released April 28, 2015) and earlier issues; Insurance Information Institute. Next Census Bureau report to be released on July 28, 2015.

Rental Vacancy Rates, Quarterly, 1990:Q1-2015:Q1

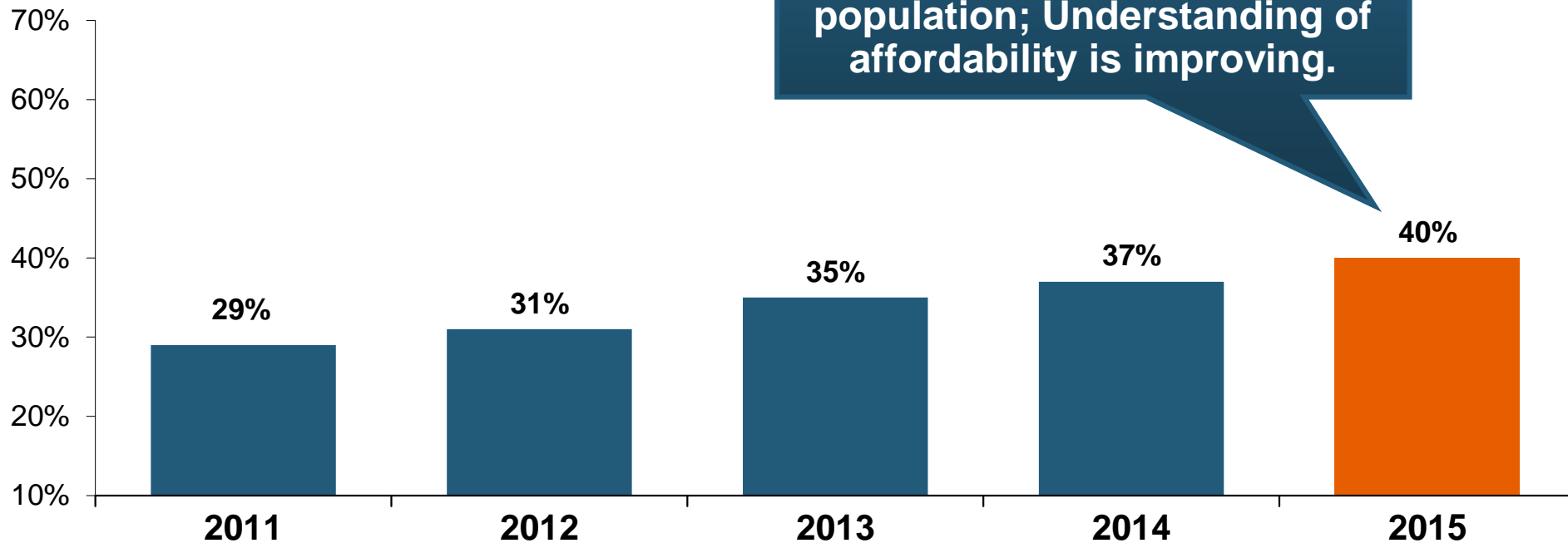


Before the 2001 recession, rental vacancy rates were 8% or less. We're below those levels now. => More multi-unit construction?

Sources: US Census Bureau, *Residential Vacancies & Home Ownership in the First Quarter of 2015* (released April 28, 2015) and earlier issues; Insurance Information Institute. Next Census Bureau report to be released on July 28, 2015.

I.I.I. Poll: Renters Insurance

Q. Do you have renters insurance? ¹



The Percentage of Renters Who Have Renters Insurance Has Been Rising Since 2011.

¹Asked of those who rent their home.

Construction Employment, Jan. 2010—June 2015*

(Thousands)

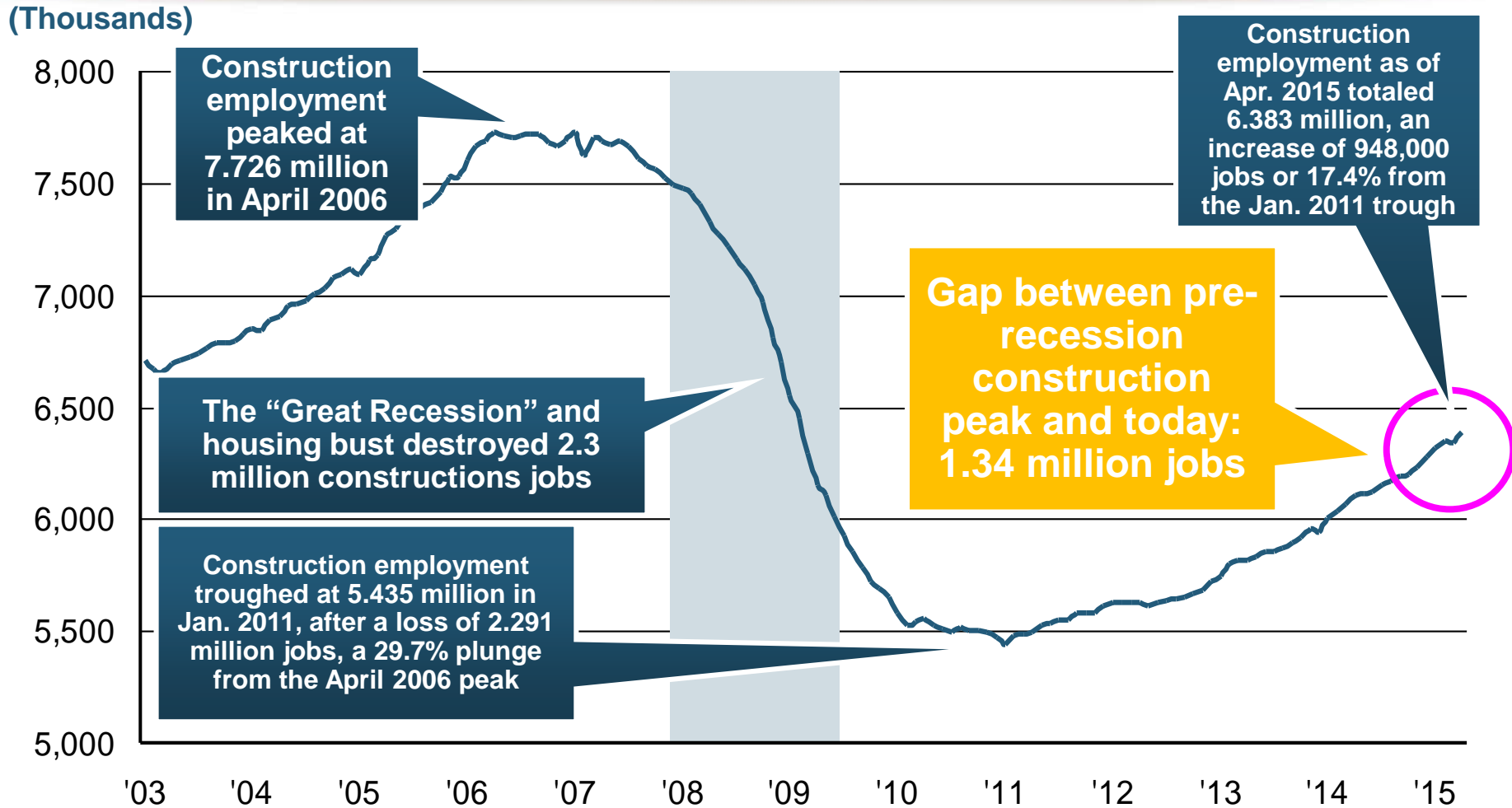


Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Construction Employment, Jan. 2003–April 2015



The Construction Sector Was a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

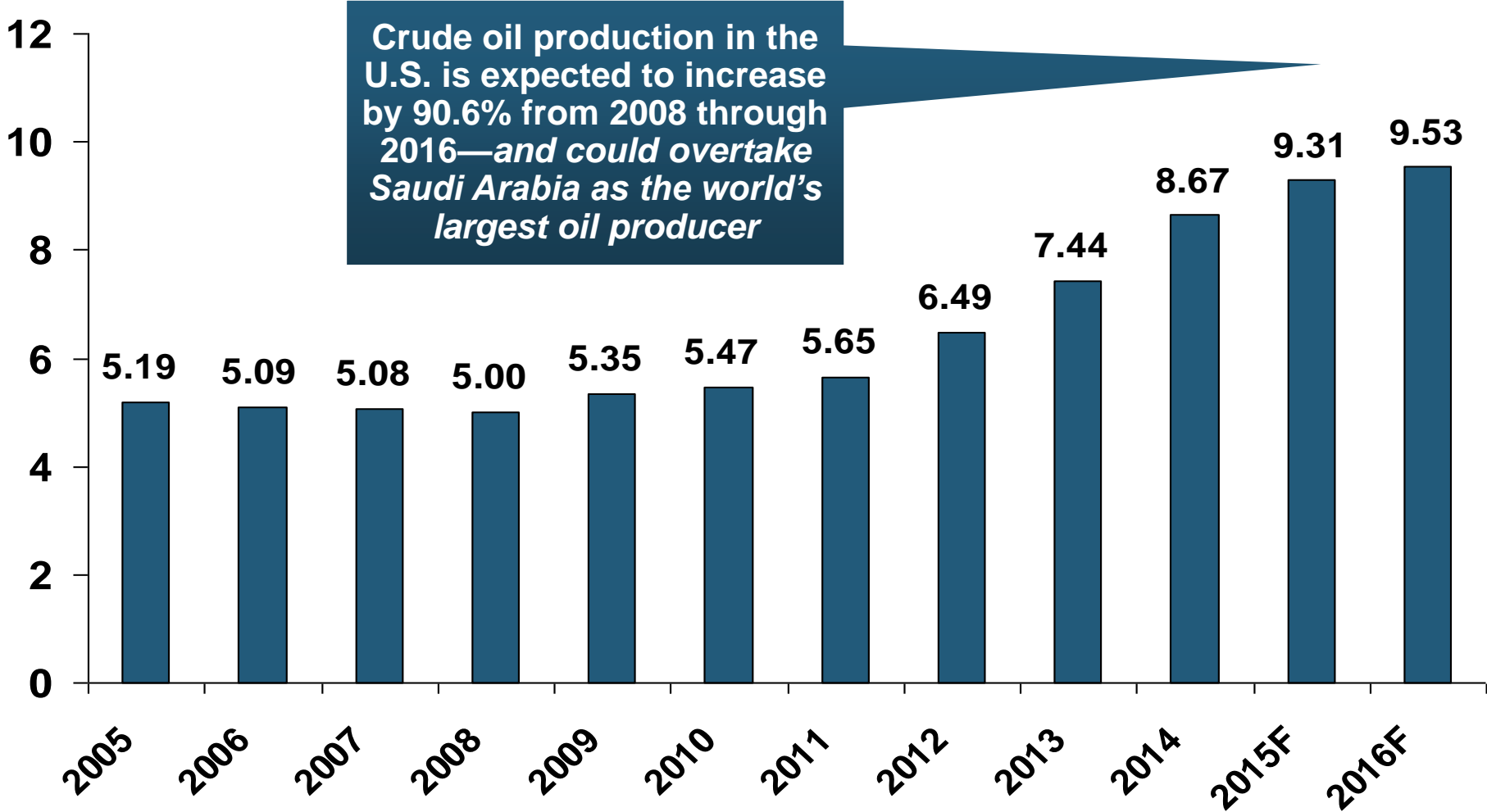
Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

**ENERGY SECTOR: OIL & GAS
INDUSTRY FUTURE IS BRIGHT
BUT VOLATILE**

**US Is Becoming an Energy
Powerhouse but Fall in Prices
Will Have Negative Impact**

U.S. Crude Oil Production, 2005-2016P

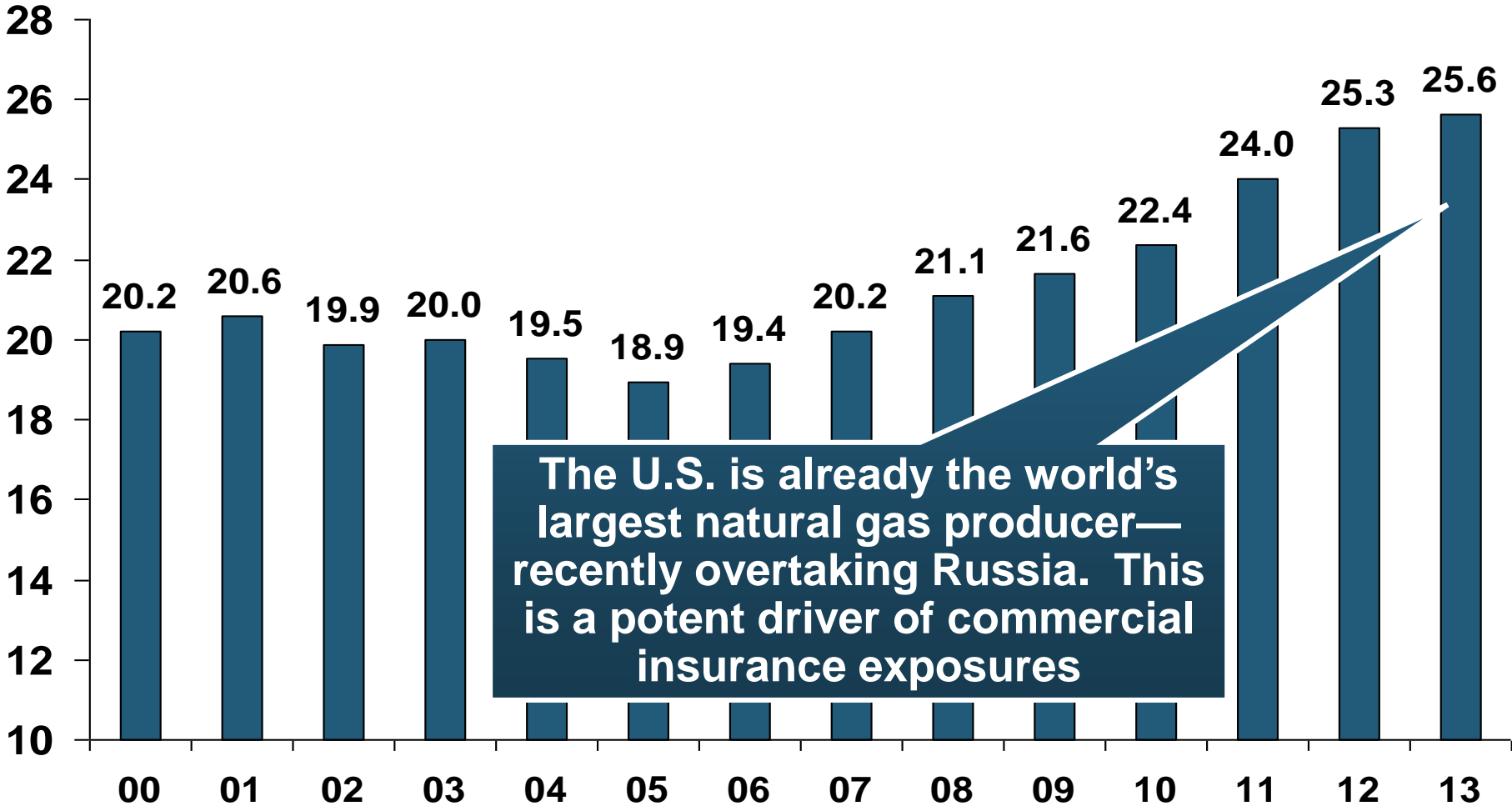
Millions of Barrels per Day



Source: Energy Information Administration, *Short-Term Energy Outlook* (January 15, 2015) , Insurance Information Institute.

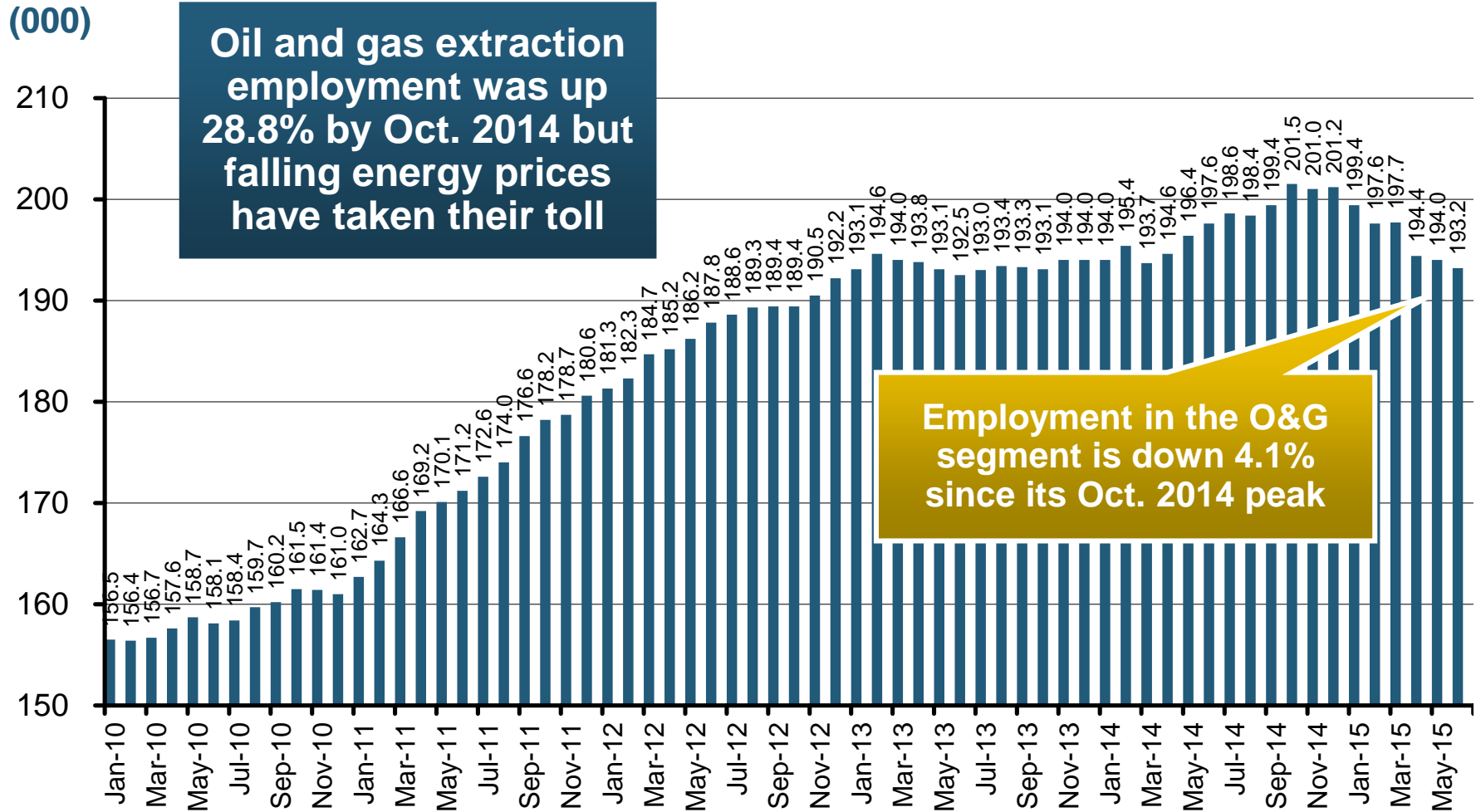
U.S. Natural Gas Production, 2000-2013

Trillions of Cubic Ft. per Year



Source: Energy Information Administration, *Short-Term Energy Outlook* (April 8, 2014), Insurance Information Institute.

Employment in Oil & Gas Extraction, Jan. 2010—June 2015*



*Seasonally adjusted

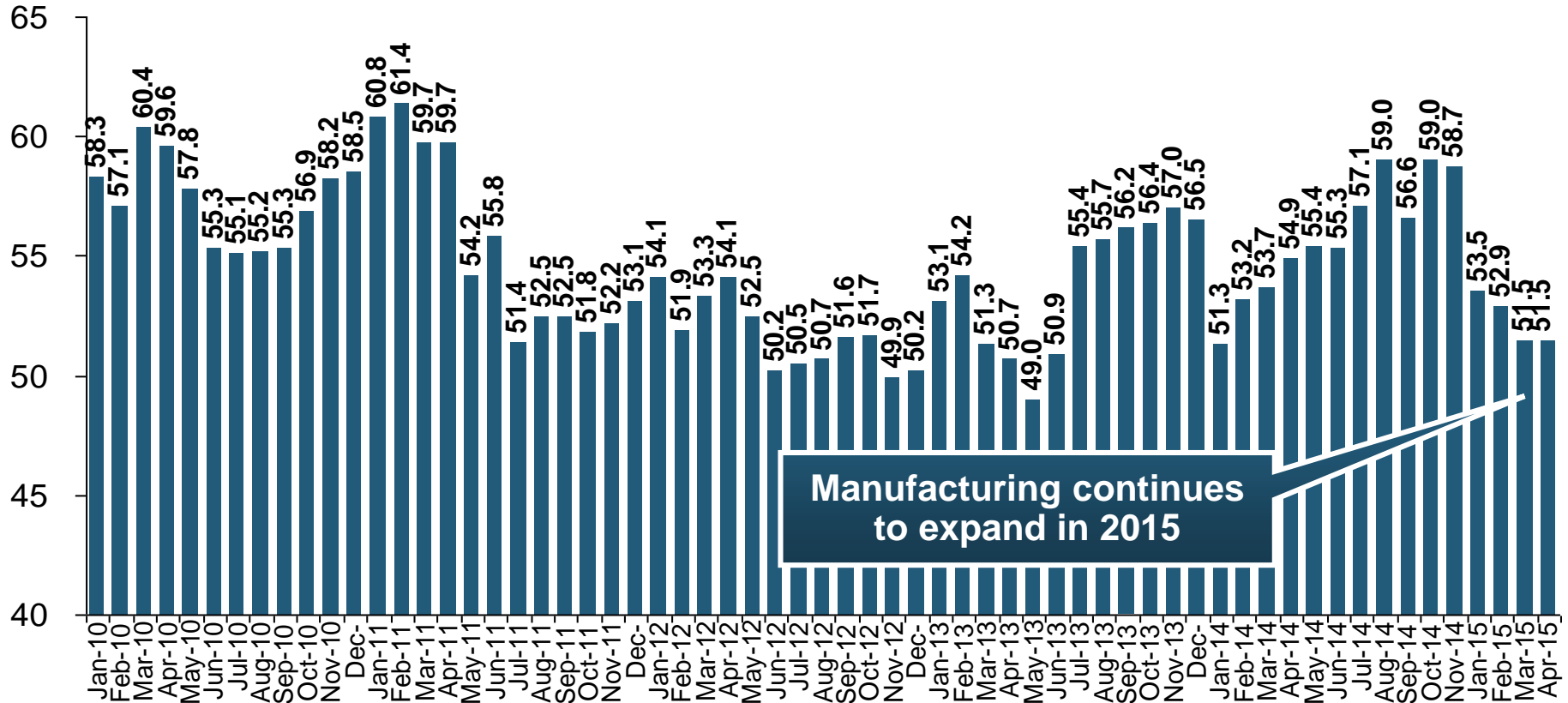
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

MANUFACTURING SECTOR OVERVIEW & OUTLOOK

**The U.S. Is Experiencing a Mini
Manufacturing Renaissance but
Headwinds from Weak Export
Markets and Strong Dollar**

ISM Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through April 2015



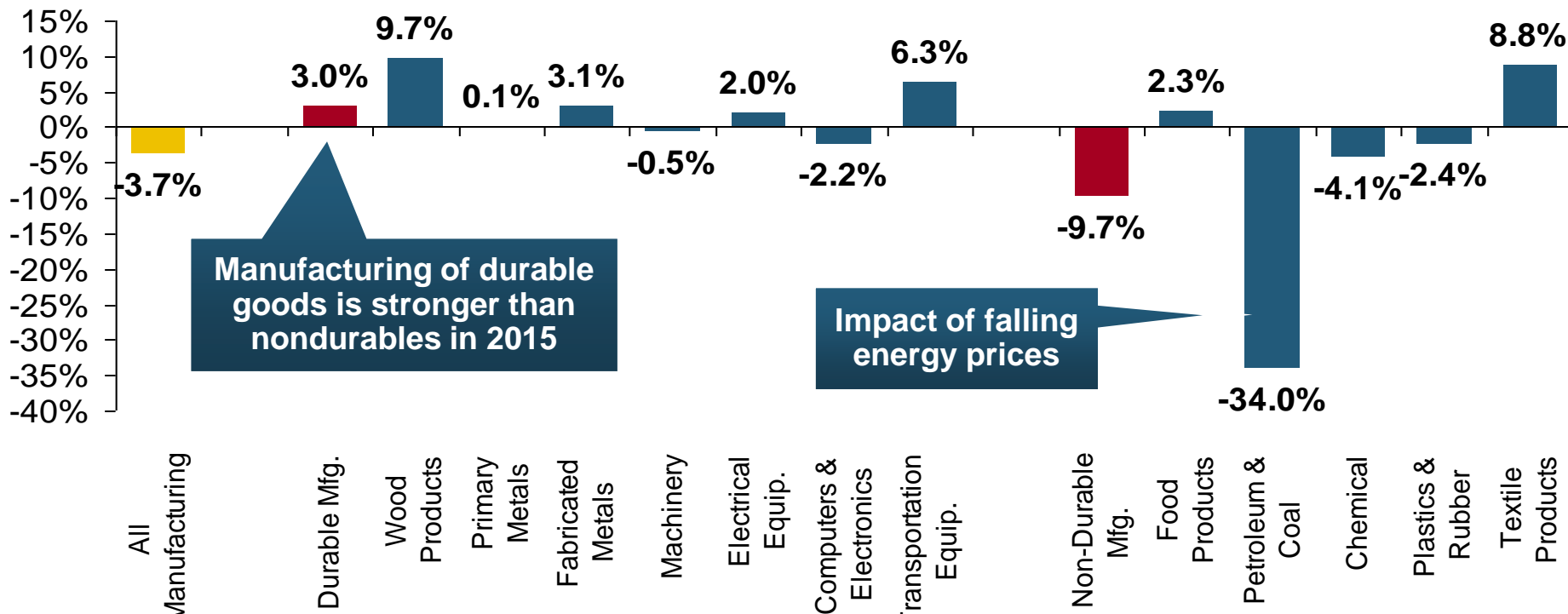
The manufacturing sector expanded for 62 of the 64 months from Jan. 2010 through Apr. 2015. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China and the high dollar.

Manufacturing Growth for Selected Sectors, 2015 vs. 2014*

Growth (%)

Durables: +3.0%

Non-Durables: -9.7%



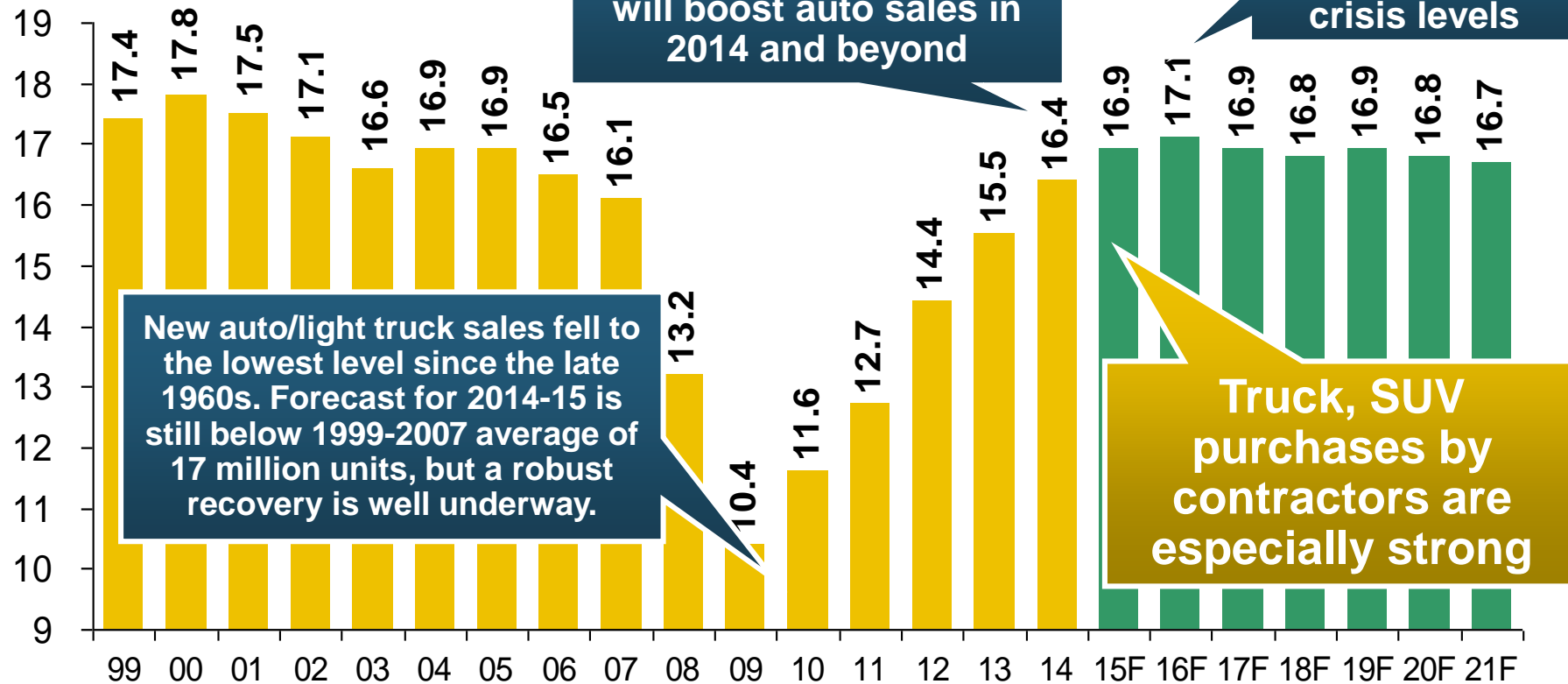
Manufacturing Is Expanding in Many Sectors But Declining Energy Prices Are Dragging Down Industry Figures. Continued Growth Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

*Seasonally adjusted; Data are YTD comparing data through February 2015 to the same period in 2014.

Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Auto/Light Truck Sales, 1999-2021F

(Millions of Units)



Job growth and improved credit market conditions will boost auto sales in 2014 and beyond

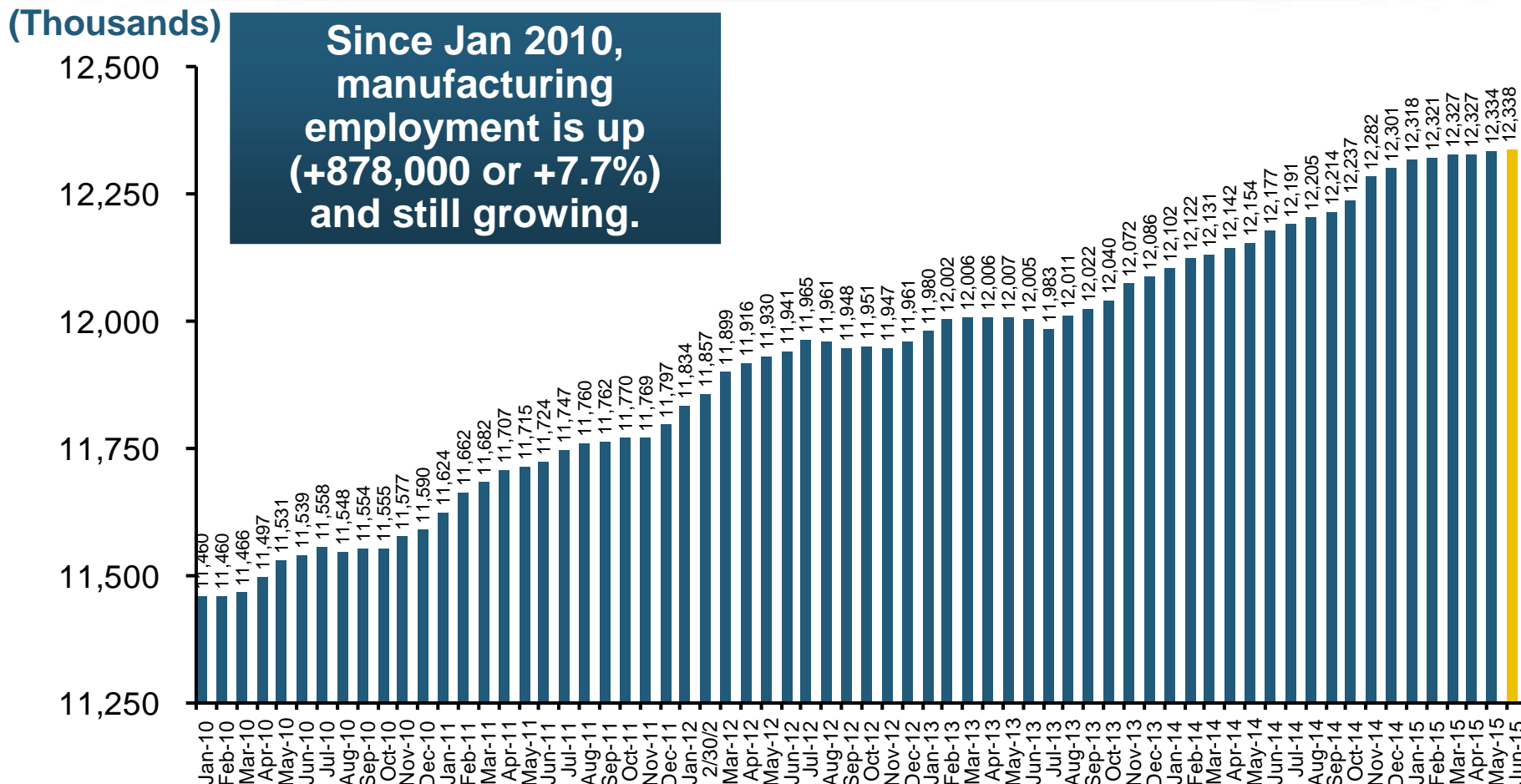
Sales have returned to pre-crisis levels

New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2014-15 is still below 1999-2007 average of 17 million units, but a robust recovery is well underway.

Truck, SUV purchases by contractors are especially strong

Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 5% - 6%.

Manufacturing Employment, Jan. 2010—June 2015*

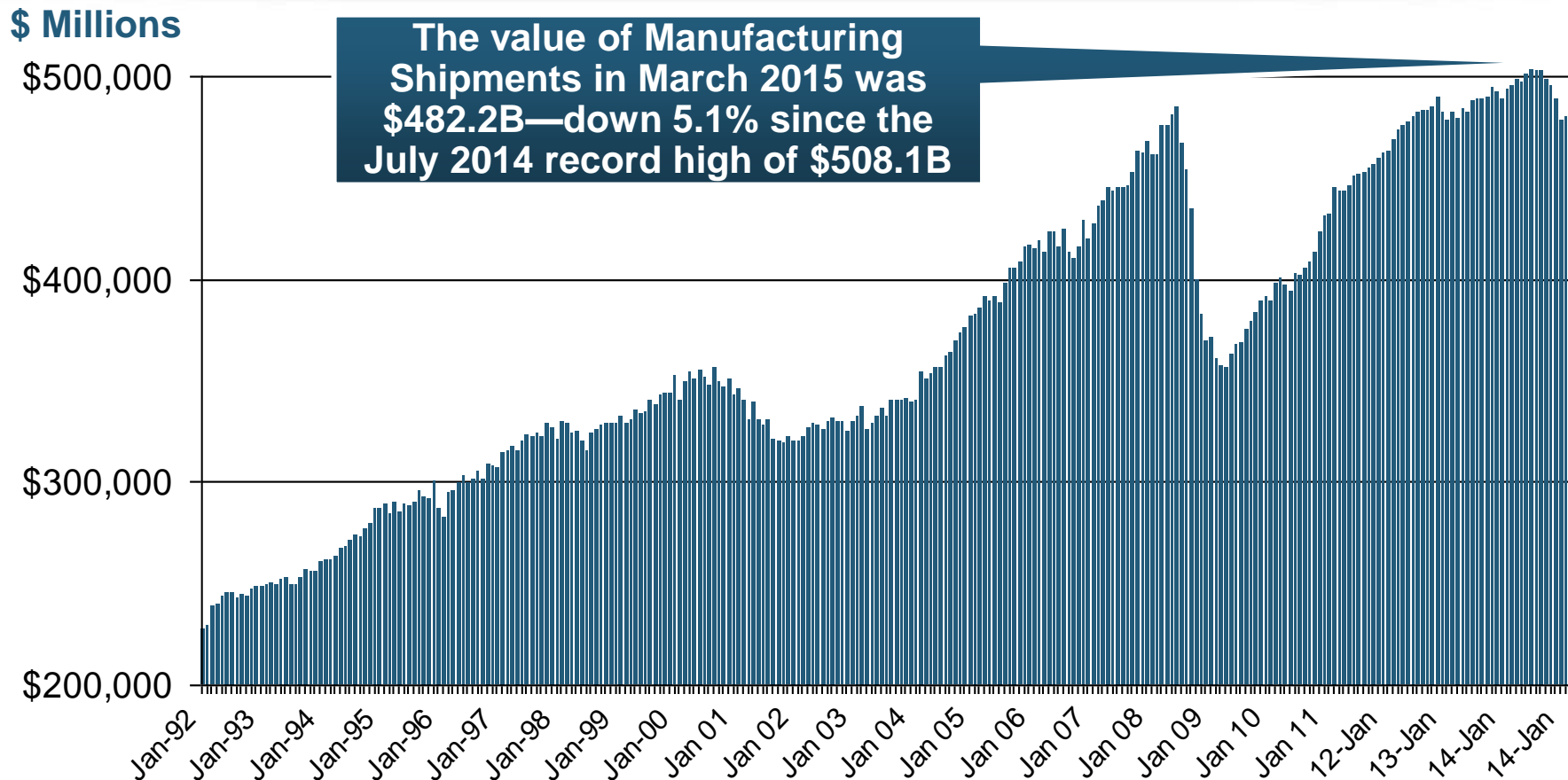


Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—March 2015

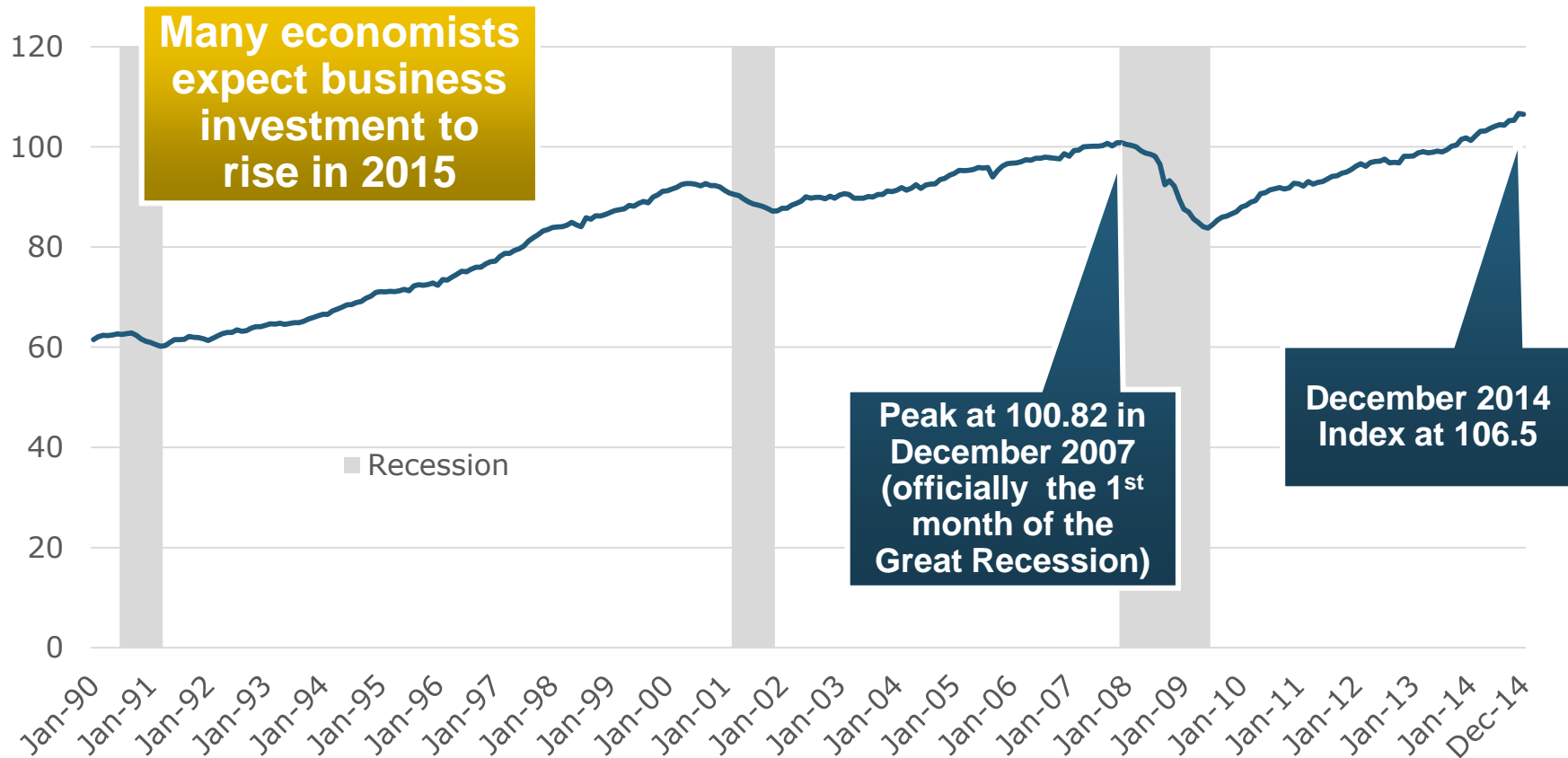


Monthly shipments in March 2015 are similar to pre-crisis (July 2008) peak but has declined in recent months due to the strong US dollar and weakness abroad. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

* Seasonally adjusted; Data published May 4, 2015.

Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Index of Total Industrial Production:* A Near Peak as of December 2014



Insurance exposures for industrial production will continue growing in 2015, and commercial insurance premium volume with them. Y-o-Y growth to December 2014 was 4.6%. Both production and premium volume growth for 2015 should exceed this.

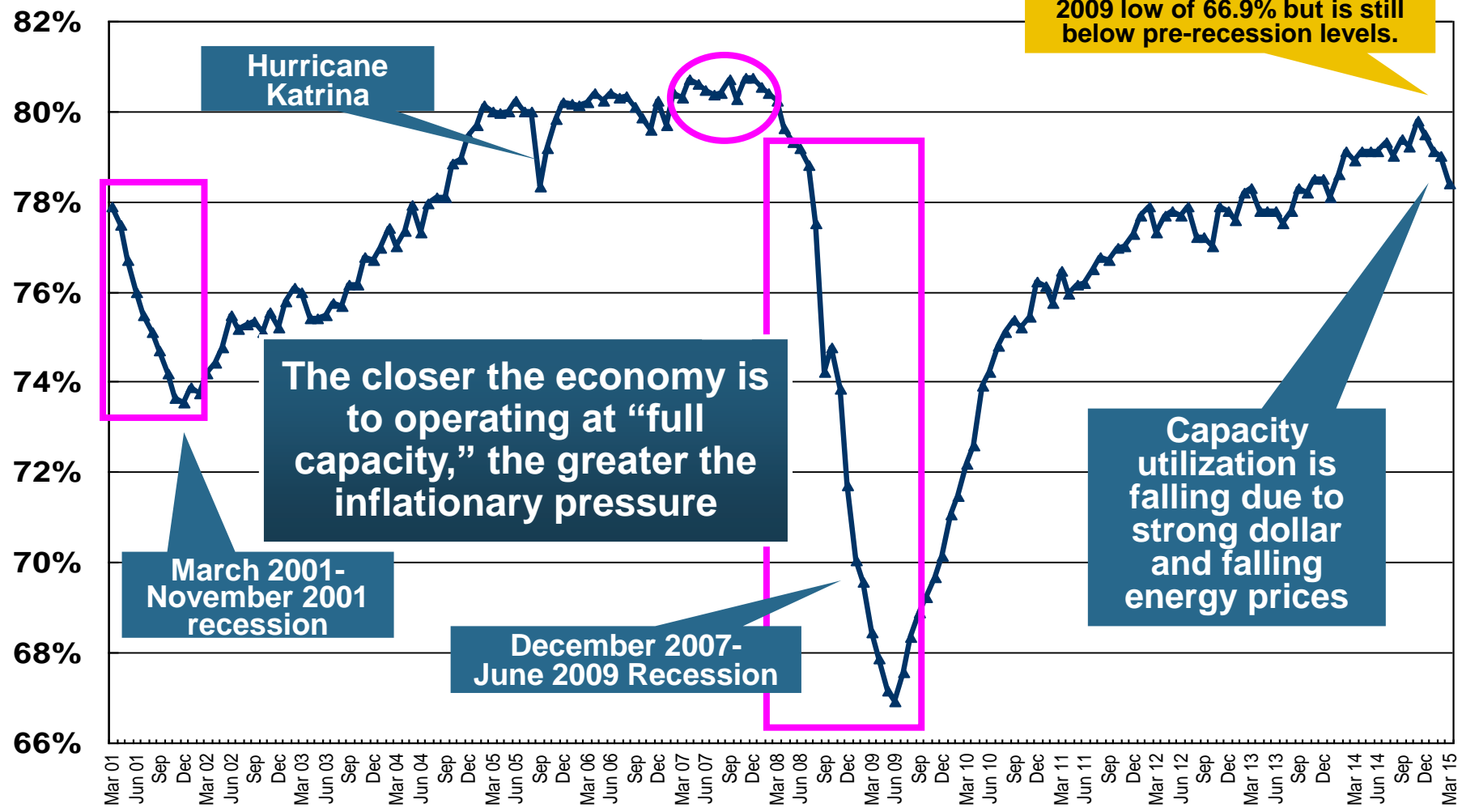
*Monthly, seasonally adjusted, through December 2014 (which is preliminary). Index based on year 2007 = 100

Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt.
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through March 2015

Percent of Industrial Capacity



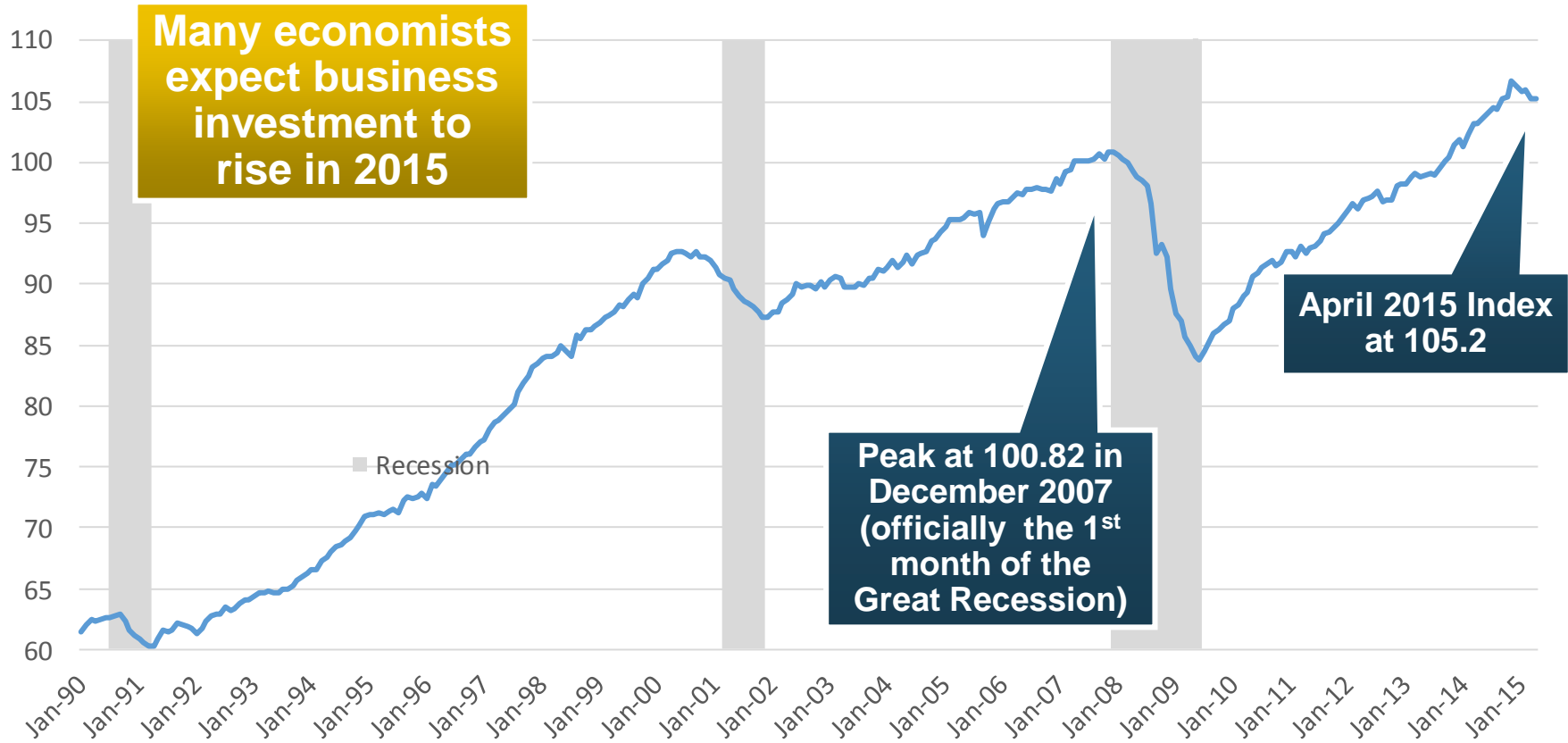
The US operated at 78.4% of industrial capacity in Feb. 2015, well above the June 2009 low of 66.9% but is still below pre-recession levels.

The closer the economy is to operating at "full capacity," the greater the inflationary pressure

Capacity utilization is falling due to strong dollar and falling energy prices

Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/g17/Current/default.htm>.

Index of Total Industrial Production:* Strong Dollar Is a Headwind



Insurance exposures for industrial production will continue growing in 2015, and commercial insurance premium volume with them. Y-o-y growth to December 2014 was 4.6%. Both production and premium volume growth for 2015 should exceed this.

*Monthly, seasonally adjusted, through March 2015 (which is preliminary). Index based on year 2007 = 100

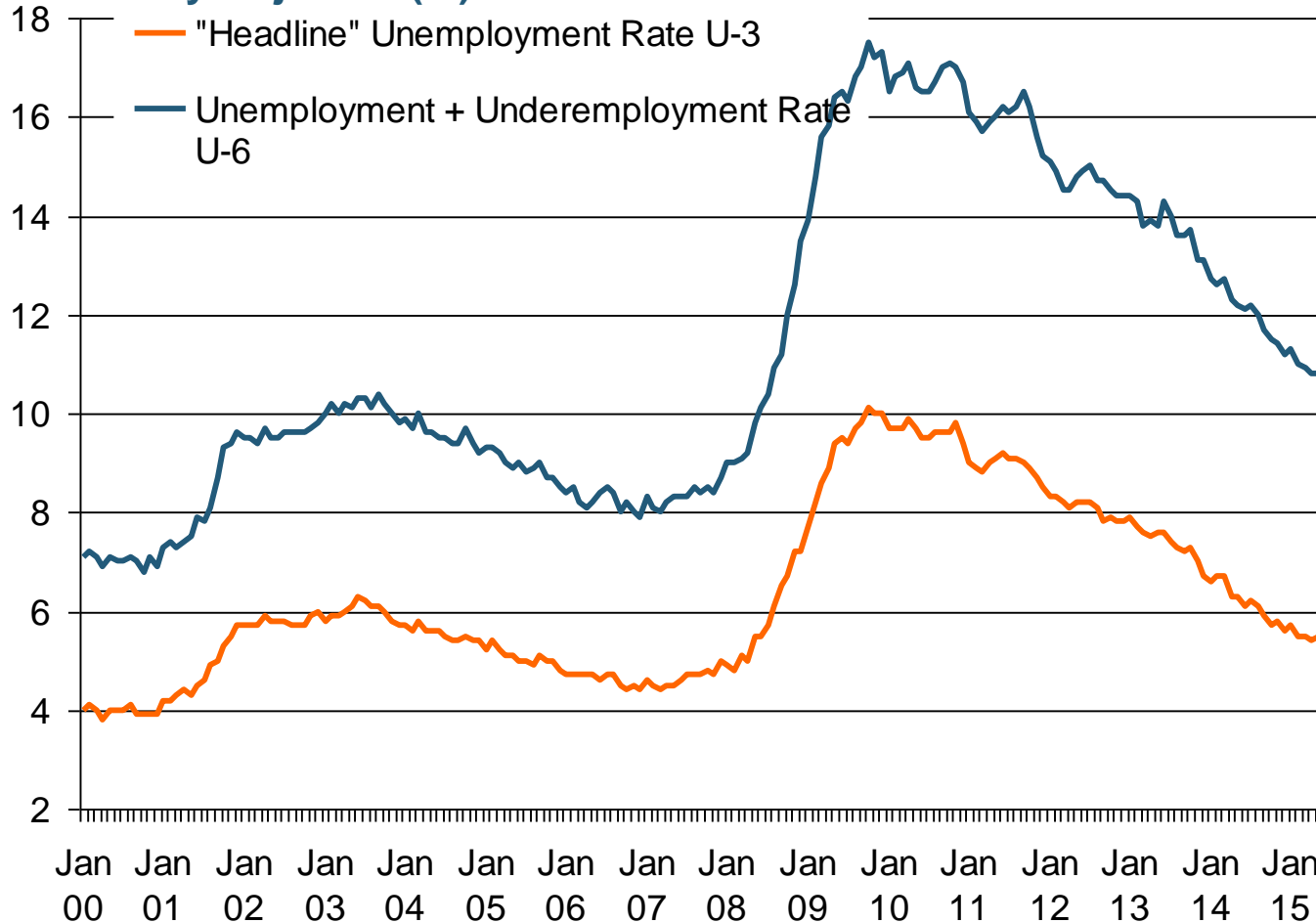
Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt.
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Labor Market Trends

Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend Has Greatly Improved

Unemployment and Underemployment Rates: Still Too High, But Falling

January 2000 through June 2015,
Seasonally Adjusted (%)



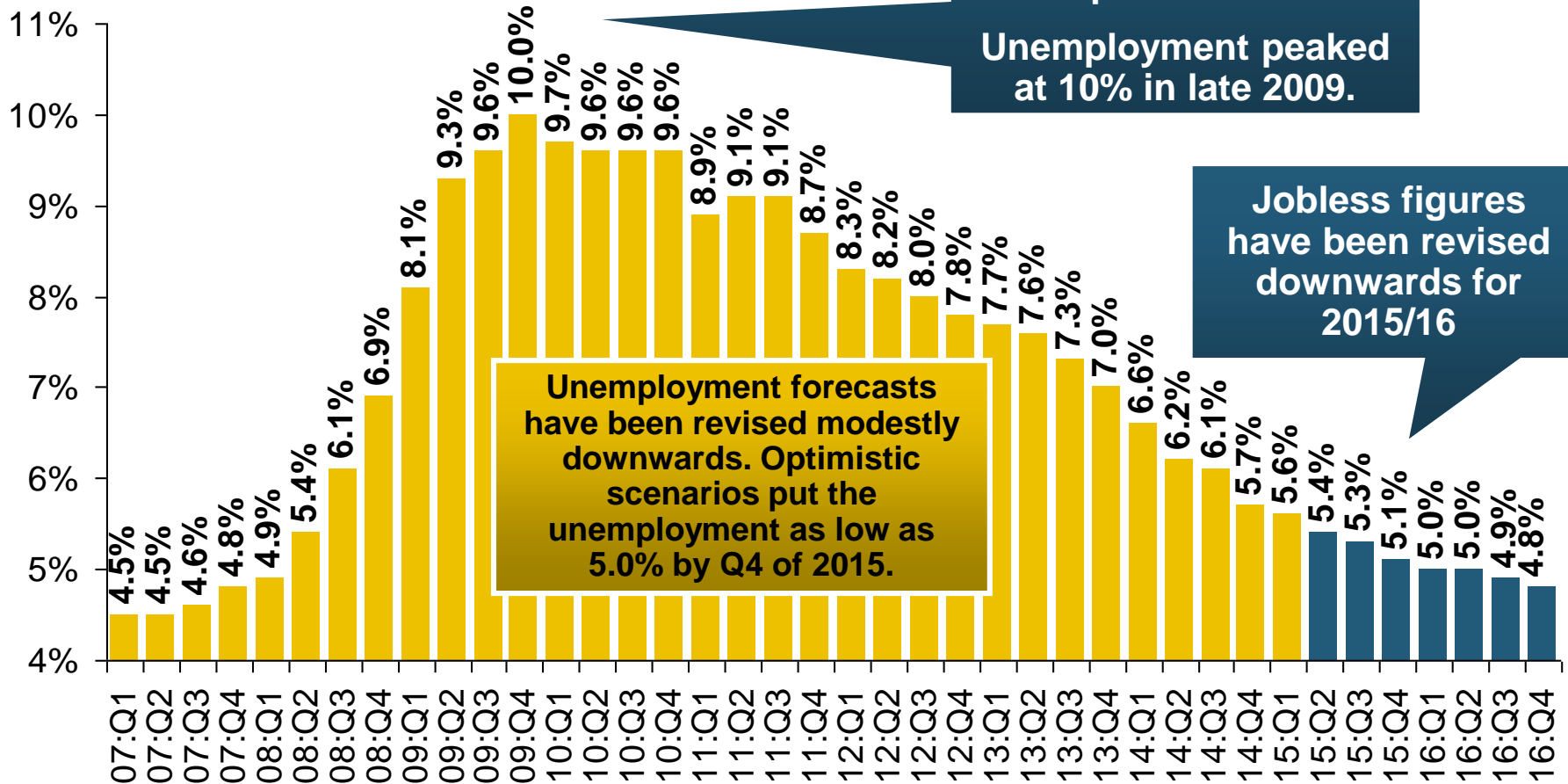
U-6 soared from 8.0% in March 2007 to 17.5% in October 2009; Stood at 10.5% in June 2015. 8% to 10% is "normal."

"Headline" unemployment was 5.3% in Apr. 2015. 4.5% to 5.5% is "normal."

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is continuing to improve.

US Unemployment Rate Forecast

2007:Q1 to 2016:Q4F*



Rising unemployment eroded payrolls and WC's exposure base.
Unemployment peaked at 10% in late 2009.

Jobless figures have been revised downwards for 2015/16

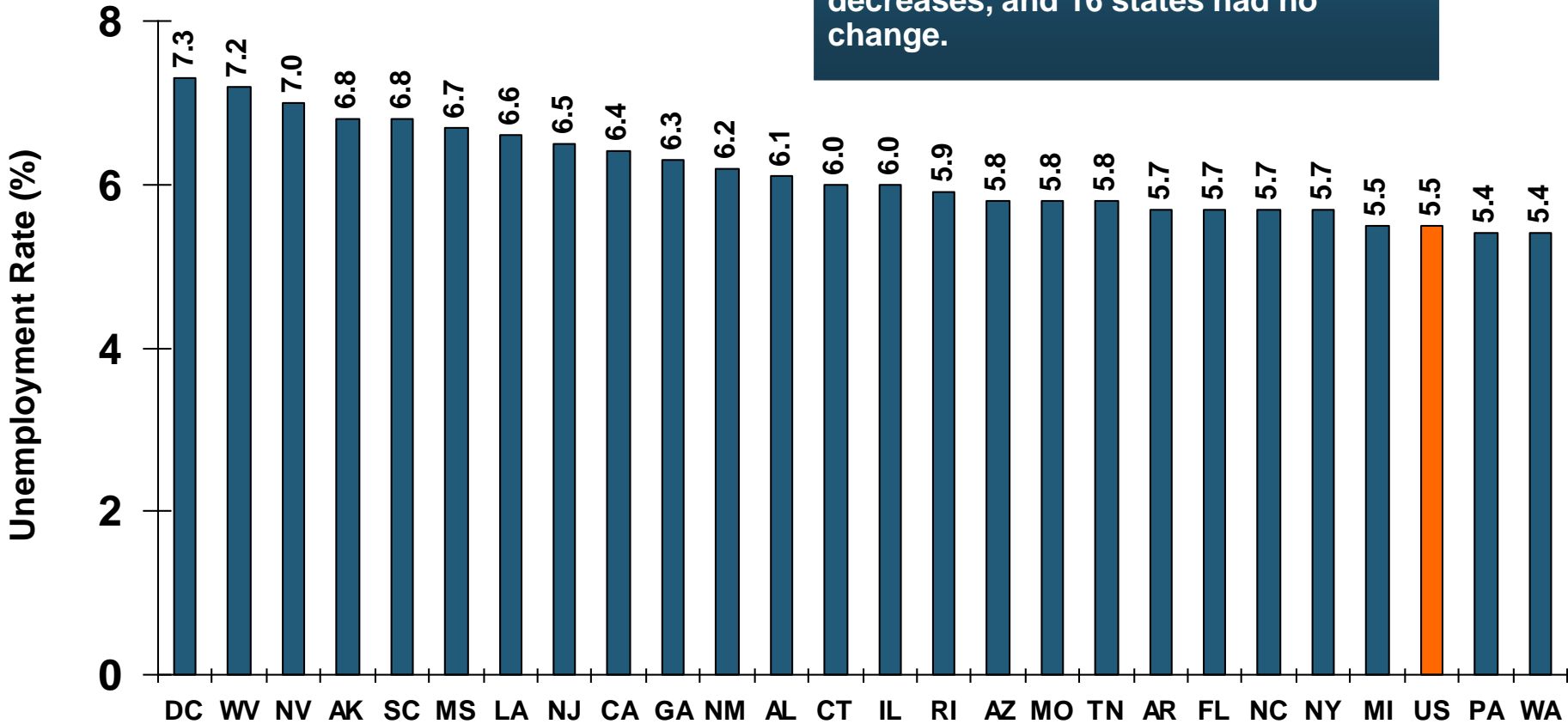
Unemployment forecasts have been revised modestly downwards. Optimistic scenarios put the unemployment as low as 5.0% by Q4 of 2015.

* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/15 edition); Insurance Information Institute.

Unemployment Rates by State, May 2015: Highest 25 States*

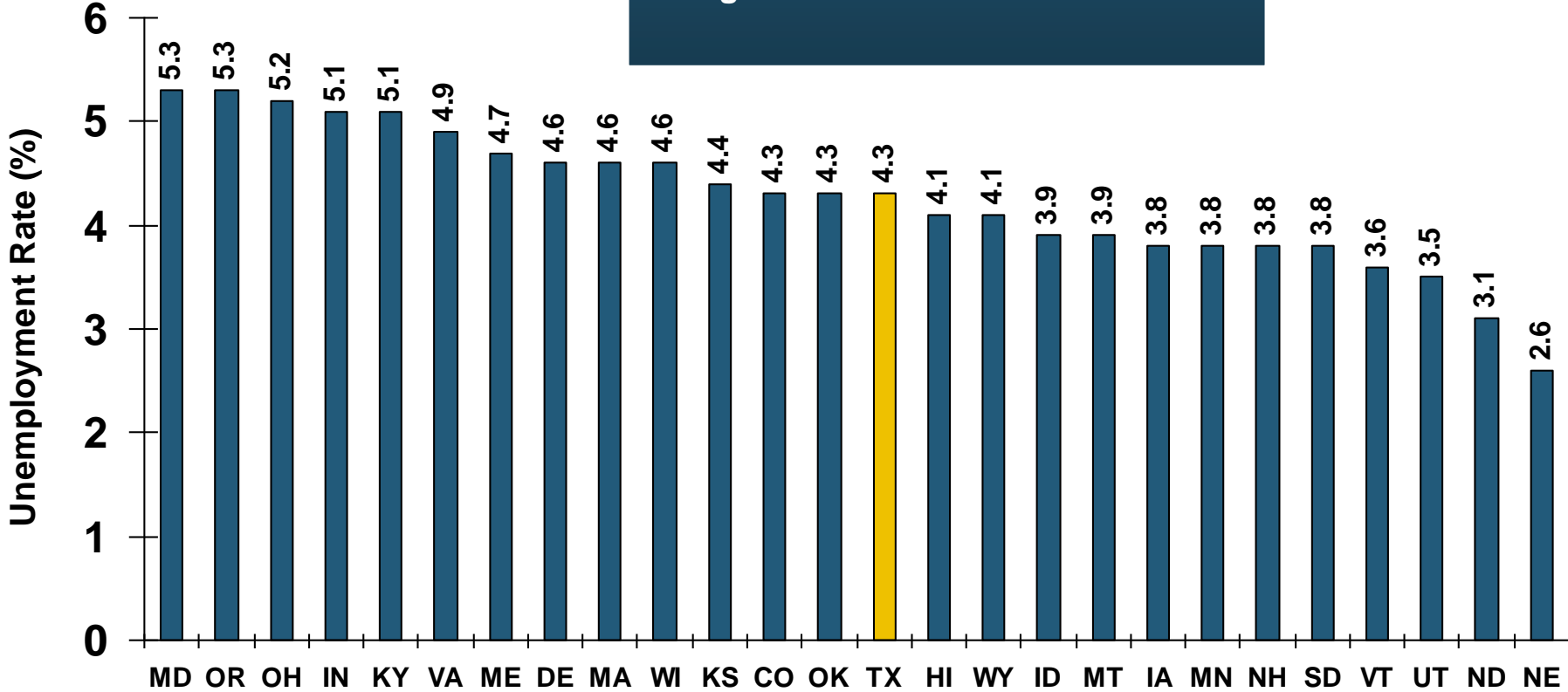
In May, 25 states had over-the-month unemployment rate increases, 9 states and the District of Columbia had decreases, and 16 states had no change.



*Provisional figures for May 2015, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates by State, May 2015: Lowest 25 States*

In May, 25 states had over-the-month unemployment rate increases, 9 states and the District of Columbia had decreases, and 16 states had no change.

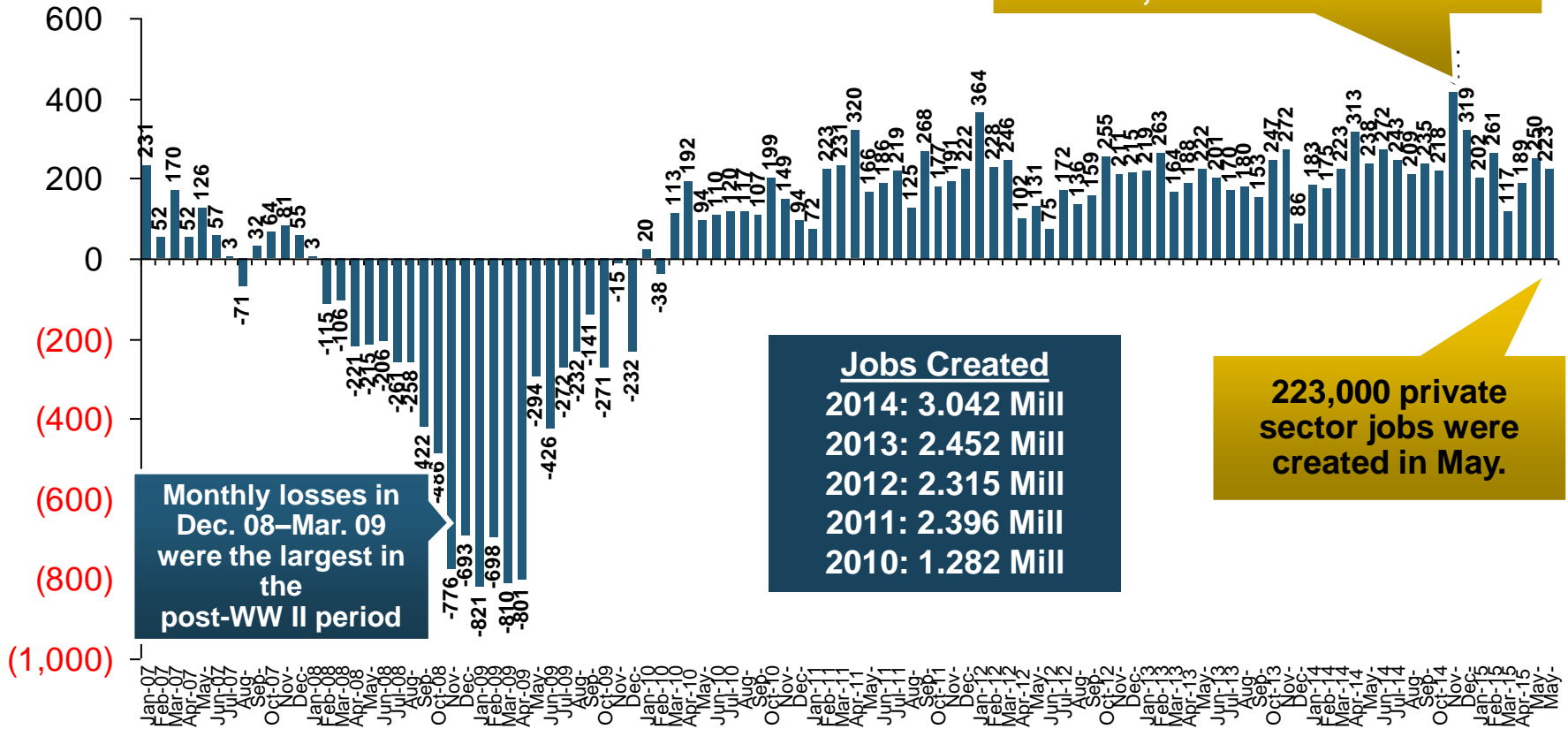


*Provisional figures for May 2015, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Monthly Change in Private Employment

January 2007 through June 2015 (000s, Seasonally Adj.)

3,042,000 jobs were created in 2014, the most since 1997



Monthly losses in Dec. 08–Mar. 09 were the largest in the post-WW II period

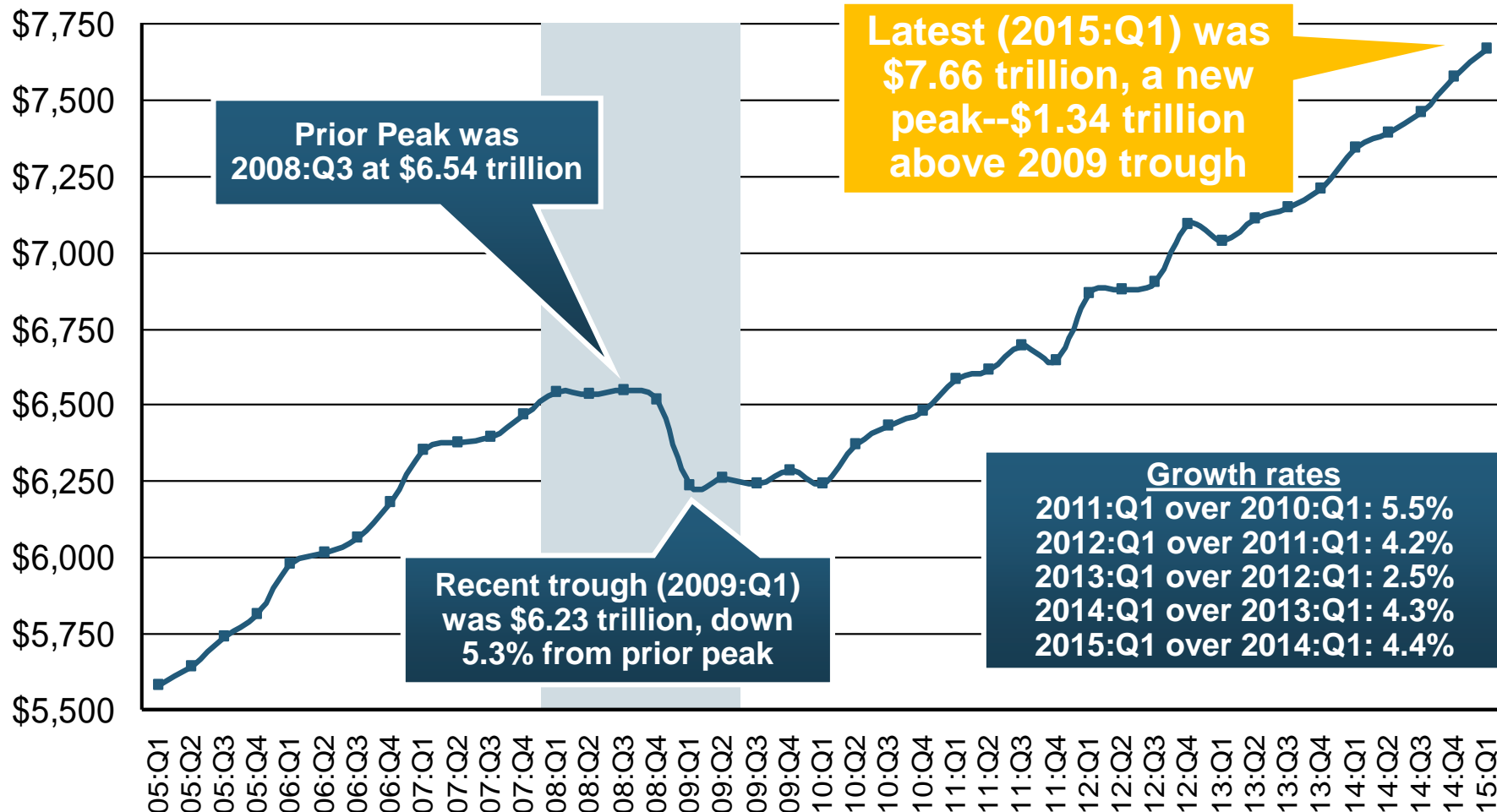
Jobs Created
 2014: 3.042 Mill
 2013: 2.452 Mill
 2012: 2.315 Mill
 2011: 2.396 Mill
 2010: 1.282 Mill

223,000 private sector jobs were created in May.

Private Employers Added 12.40 Million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2015:Q1

Billions



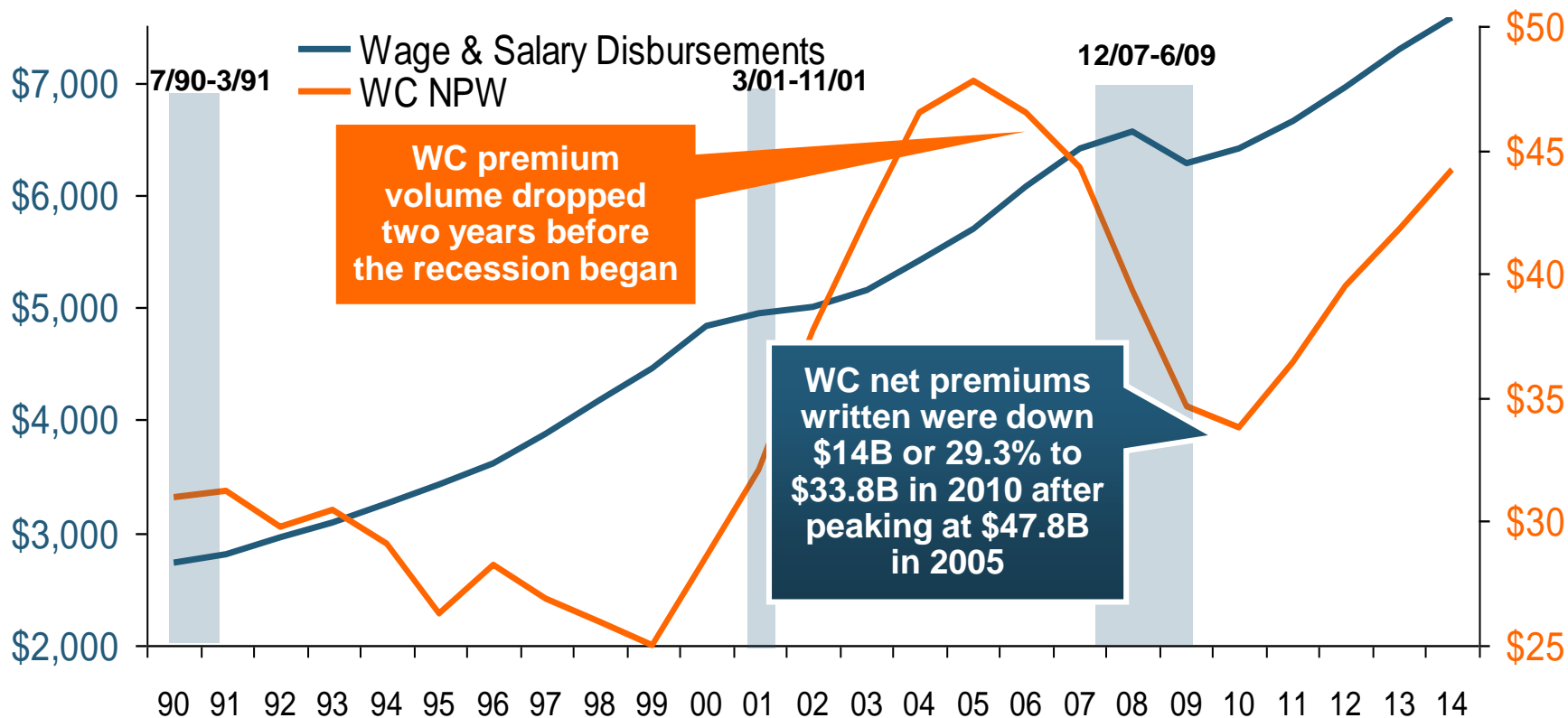
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Payroll vs. Workers Comp Net Written Premiums, 1990-2014P

Payroll Base*
\$Billions

WC NWP
\$Billions



Continued Payroll Growth and Rate Gains Suggest WC NWP Will Grow Again in 2015

*Private employment; Shaded areas indicate recessions. WC premiums for 2014 are from NCCI.

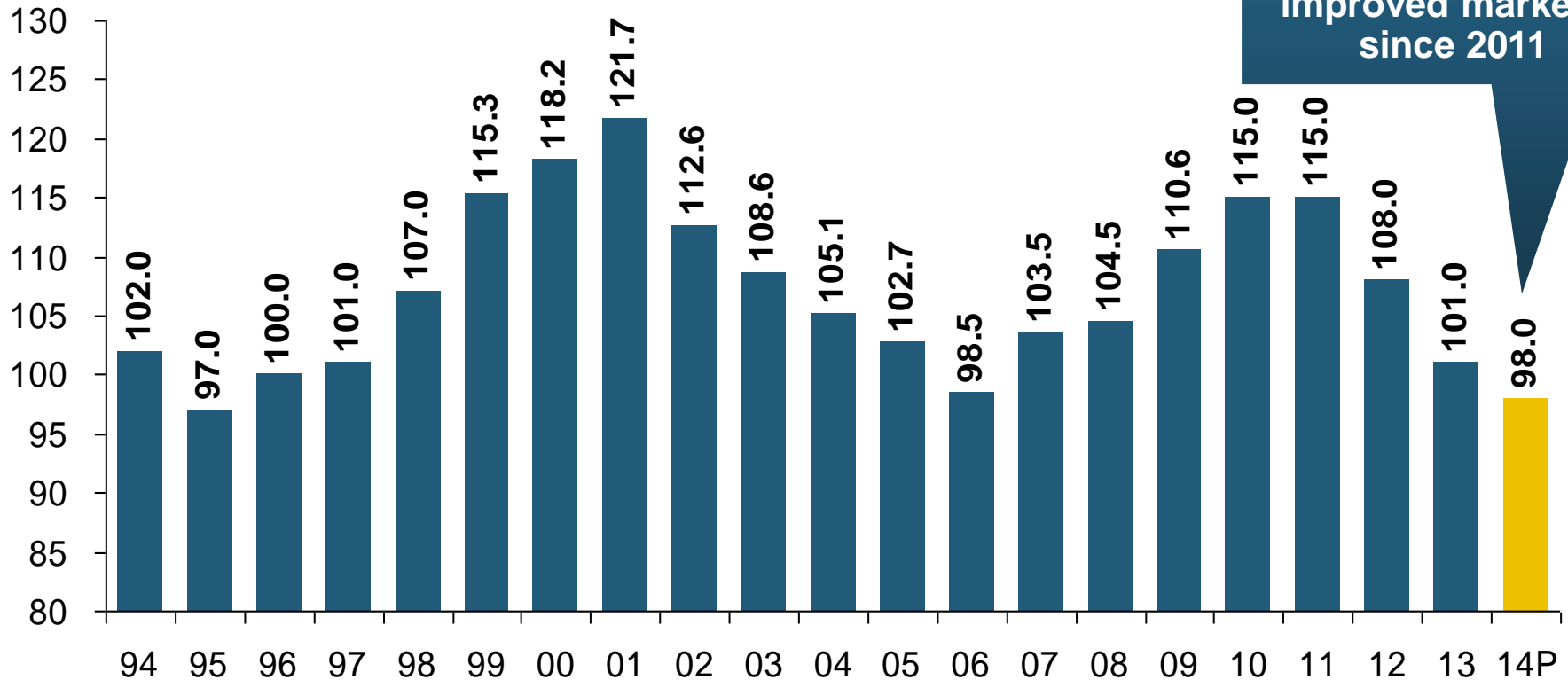
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.



Workers Compensation Operating Environment

**Workers Comp Results Have Improved
Substantially in Recent Years**

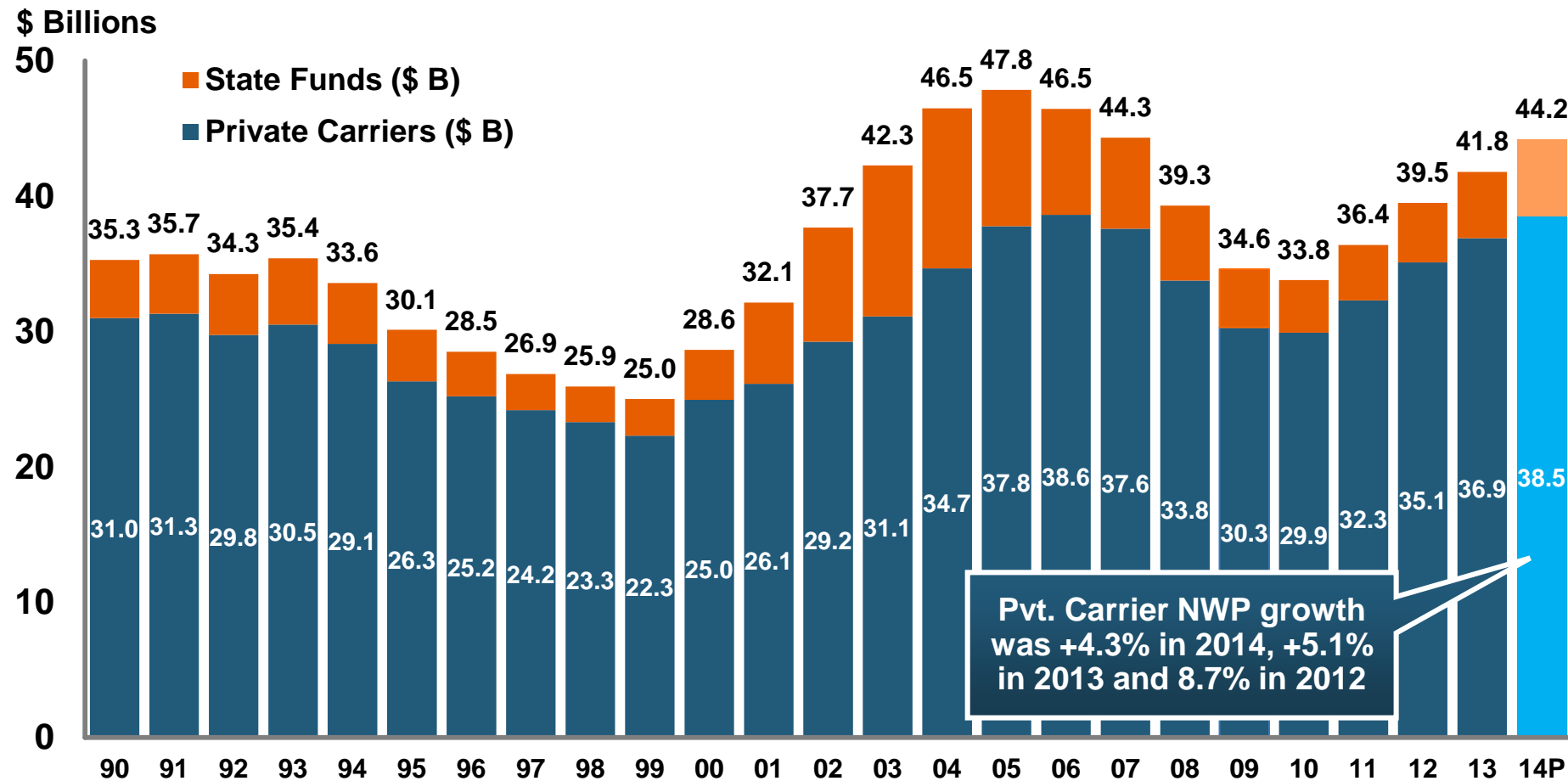
Workers Compensation Combined Ratio: 1994–2014P



Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

Workers Compensation Premium: Fourth Consecutive Year of Increase

Net Written Premium



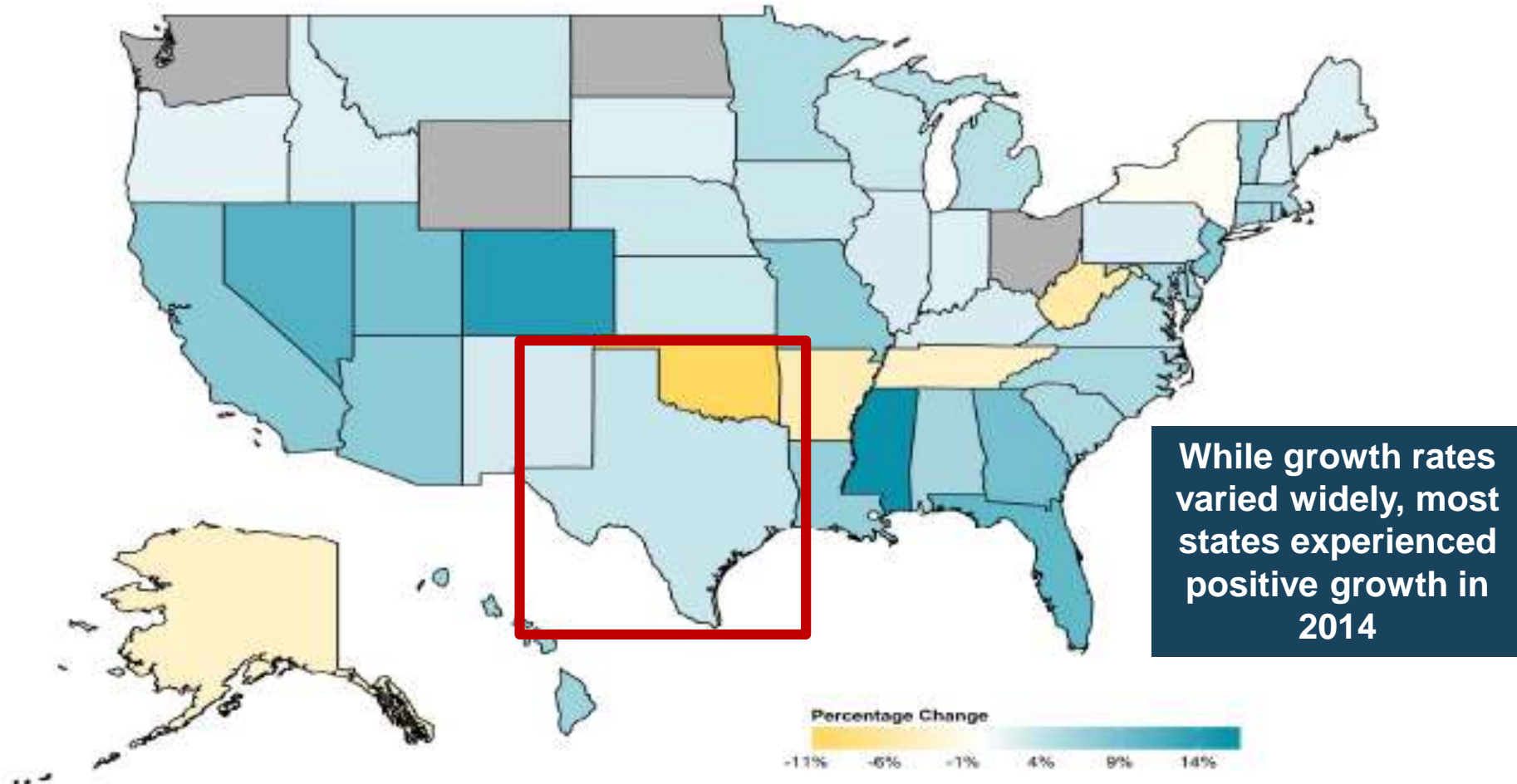
p Preliminary

Source: NCCI from Annual Statement Data.

Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT.
Each calendar year total for State Funds includes all funds operating as a state fund that year.

2014 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2014 Growth = +4.6%



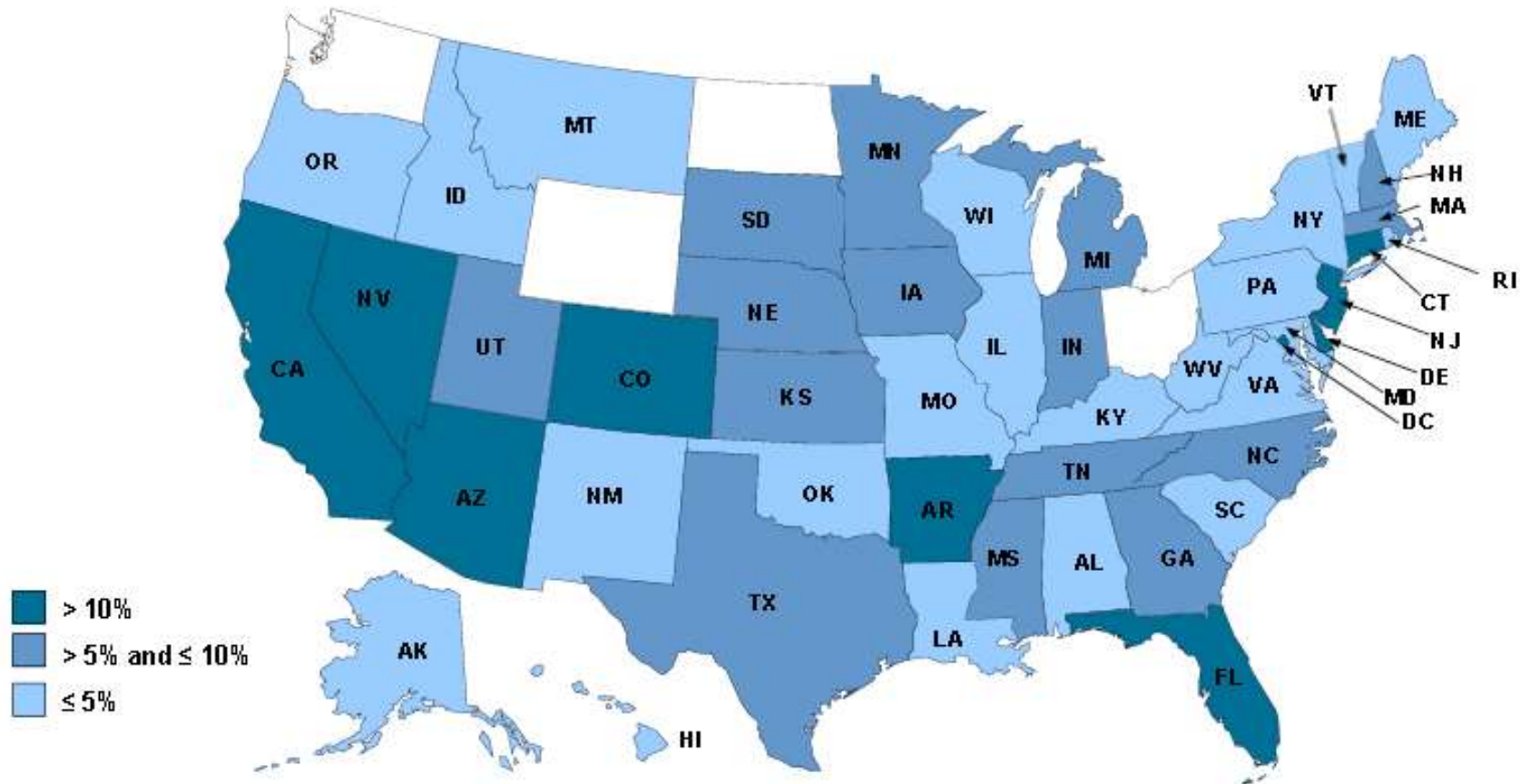
*Excludes monopolistic fund states (in gray): OH, ND, WA and WY.

Source: NCCI.

2013 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2013 Growth = +5.4%

While growth rates varied widely, all states experienced positive growth in 2013



*Excludes monopolistic fund states (in white): OH, ND, WA and WY.

Source: NCCI.

Workers Compensation Components of Written Premium Change, 2013 to 2014

Written Premium Change from 2013 to 2014

Net Written Premium—Countrywide	+4.6%
Direct Written Premium—Countrywide	+4.6%
Direct Written Premium—NCCI States	+4.5%
Components of DWP Change for NCCI States	
Change in Carrier Estimated Payroll	+4.7%
Change in Bureau Loss Costs and Mix	-1.4%
Change in Carrier Discounting	+0.4%
Change in Other Factors	+0.8%
Combined Effect	+4.5%

Growth is now almost entirely payroll driven

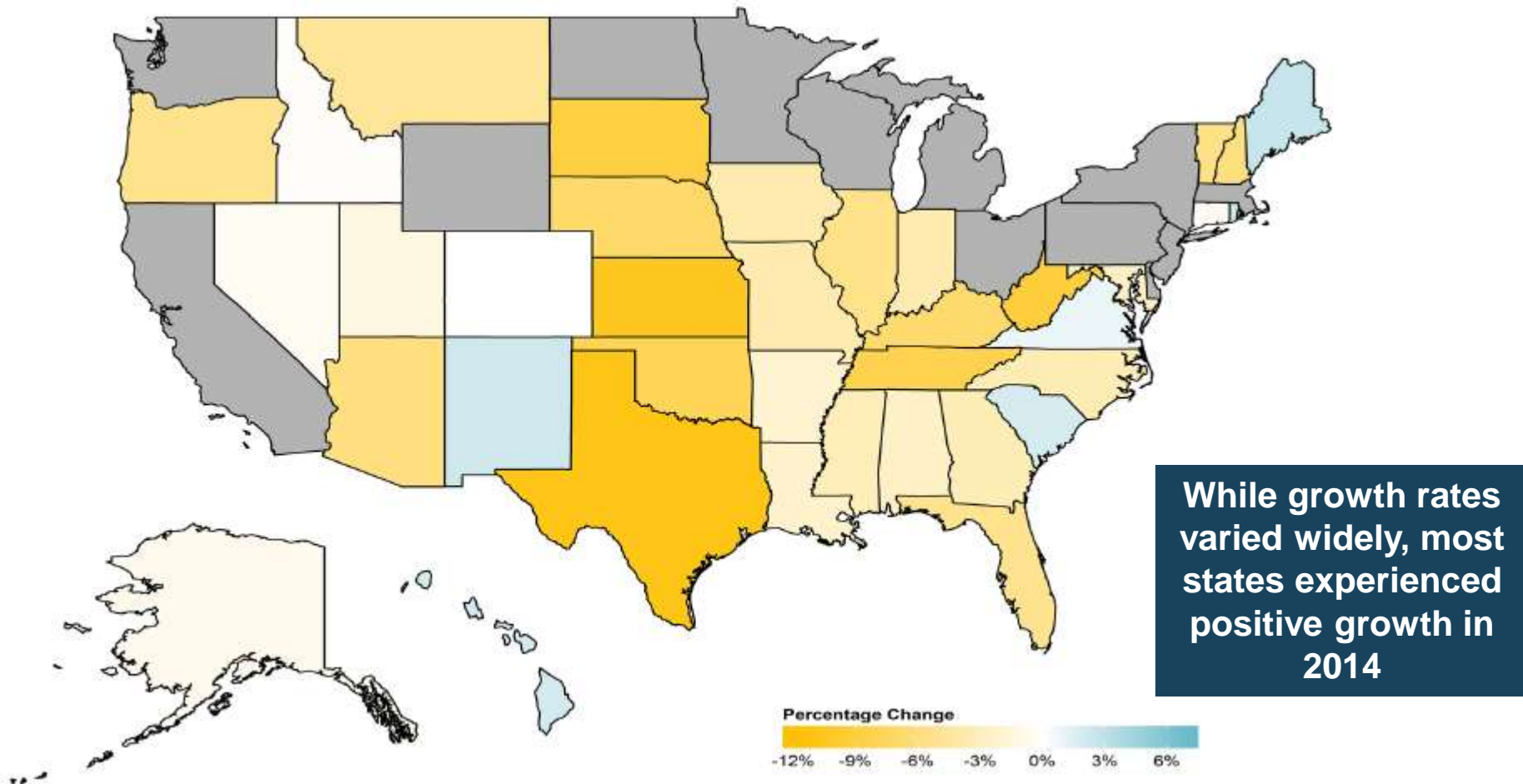
Sources: Countrywide: Annual Statement data.

NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services.

Components: NCCI Policy data.

WC Approved or Filed and Pending Change in NCCI Premium Level by State

Latest Change for Voluntary Market

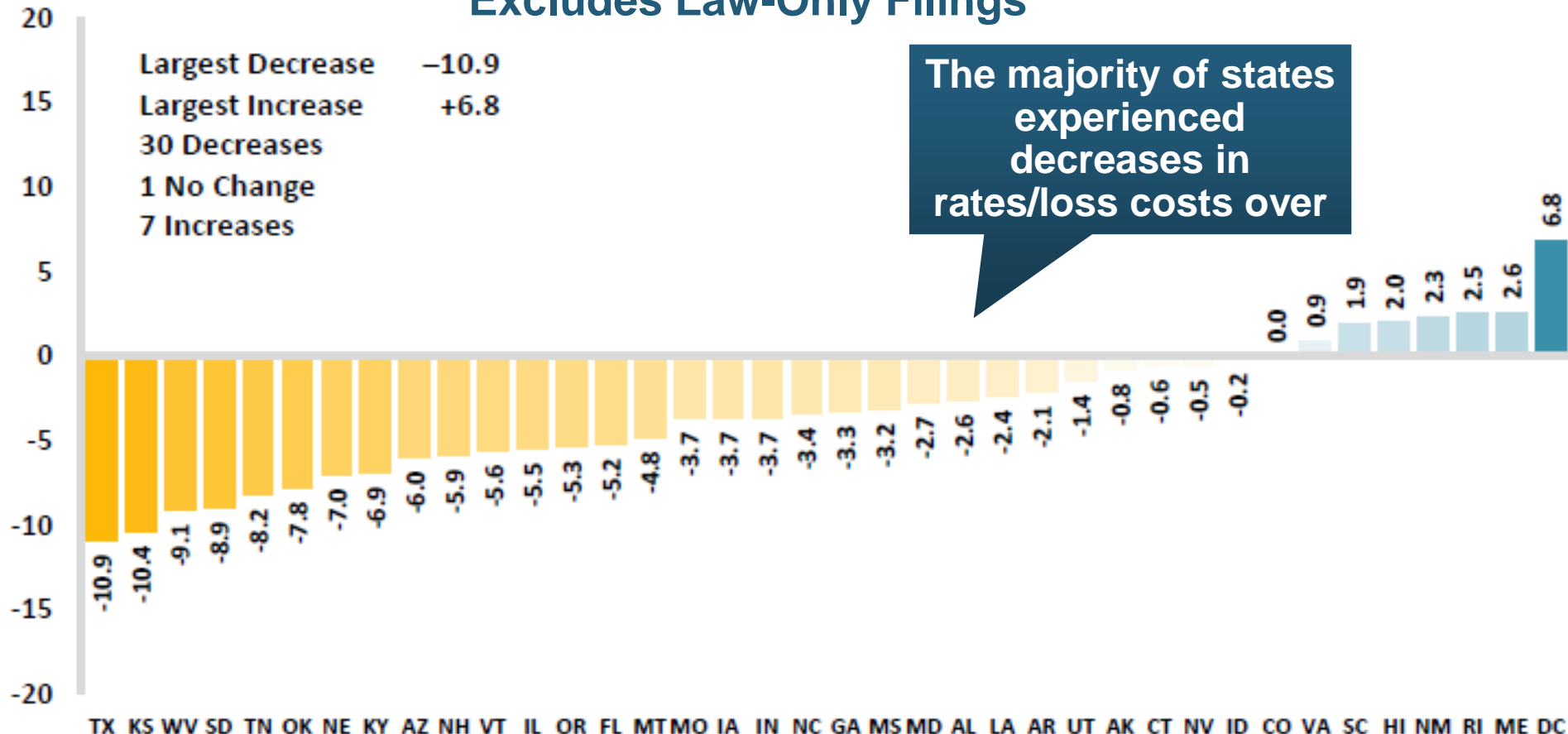


*Excludes monopolistic fund states (in gray): OH, ND, WA and WY.

Source: NCCI.

WC Approved or Filed and Pending Change in NCCI Premium Level by State

Latest Change for Voluntary Market Excludes Law-Only Filings



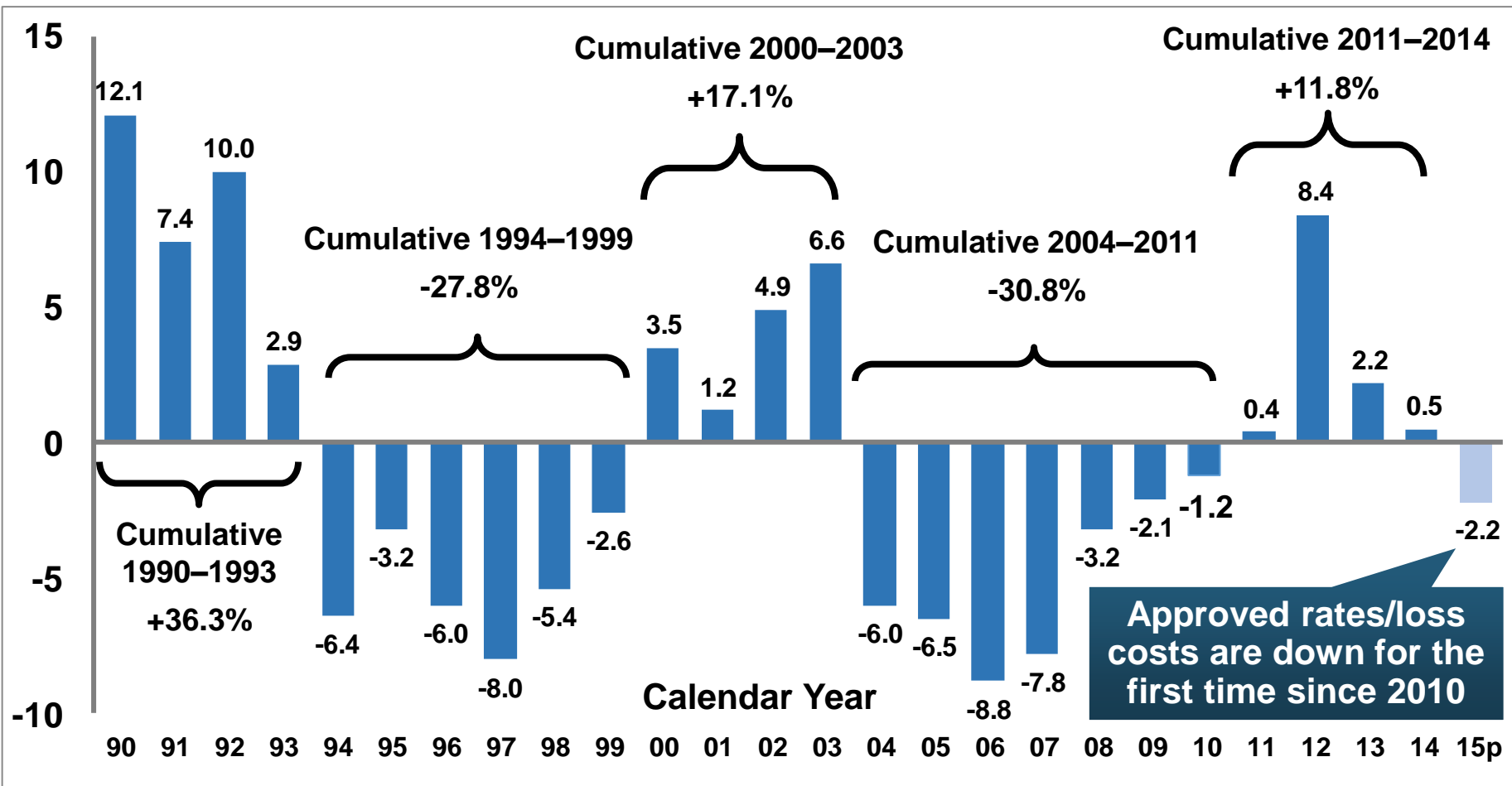
Note: Premium level changes are approved changes are approved or filed and pending changes in advisory rates, loss costs and rating values as of 4/24/15 as filed by applicable rating organization, relative to those previously approved. SC is filed and pending. IN and NC are in cooperation with state rating bureaus.

Source: NCCI.

WC Approved Changes in Bureau Premium Level (Rates/Loss Costs)

By Effective Date for Total Market

Percent

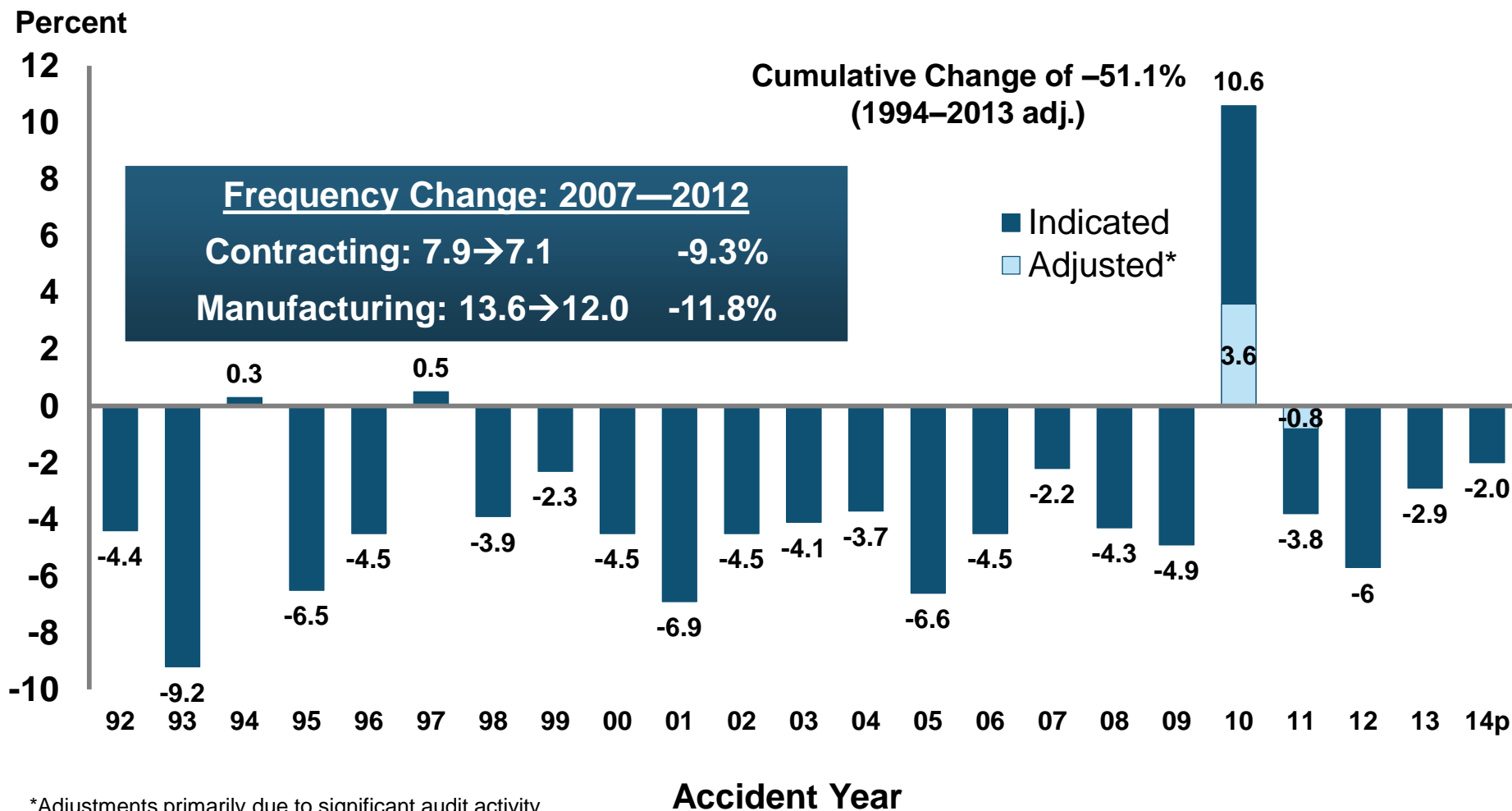


*States approved through 4/24/15.

Note: Bureau premium level changes are countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization, relative to those previously approved.

Source: NCCI.

Workers Compensation Lost-Time Claim Frequency Declined in 2014



*Adjustments primarily due to significant audit activity.

2014p: Preliminary based on data valued as of 12/31/2014.

Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; Excludes high deductible policies; 1994-2013: Based on data through 12/31/13. Data for all states where NCCI provides ratemaking services, excluding WV.

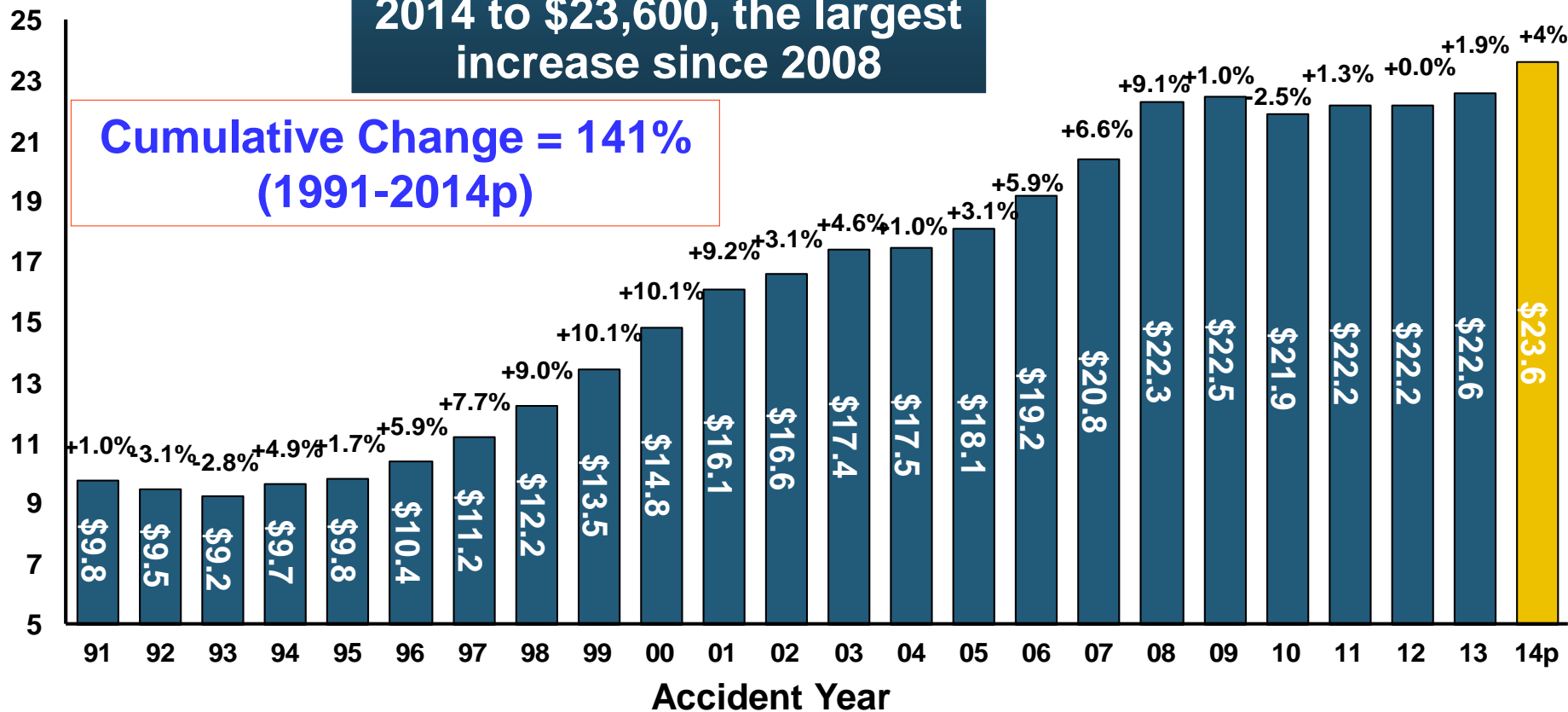
Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level

Workers Comp Indemnity Claim Costs: Modest Increase in 2014

Average Indemnity Cost per Lost-Time Claim

Average indemnity costs per claim were up 4% in 2014 to \$23,600, the largest increase since 2008

Cumulative Change = 141% (1991-2014p)

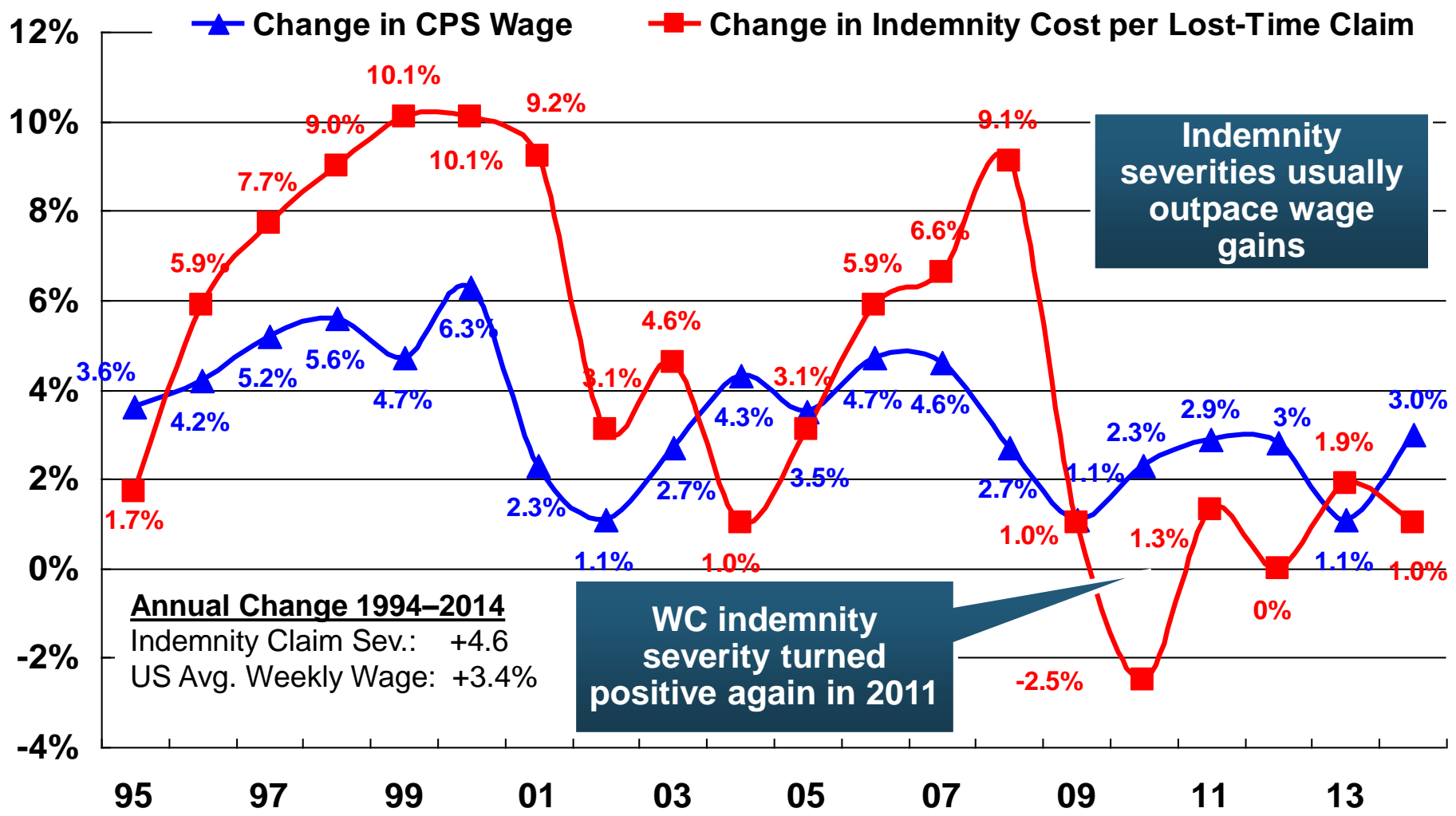


2014p: Preliminary based on data valued as of 12/31/2014.

1991-2013: Based on data through 12/31/2013, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

WC Indemnity Severity vs. Wage Inflation, 1995 -2014p



2014p: Preliminary based on data valued as of 12/31/2014; 1991-2010: Based on data through 12/31/2010, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey. Source: NCCI

Workers Compensation Medical Severity: Moderate Increase in 2014

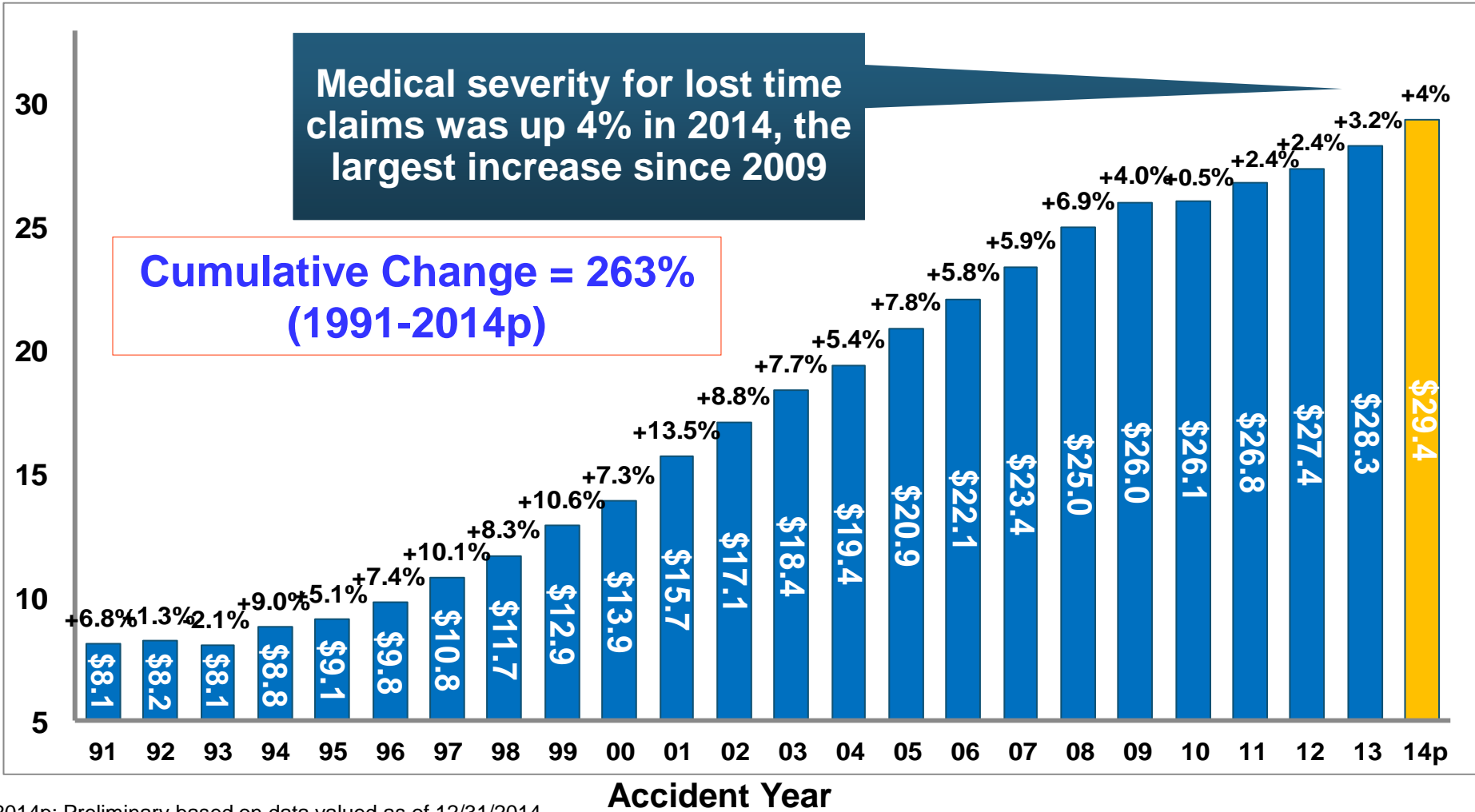


Medical Claim Cost (\$000s)

Average Medical Cost per Lost-Time Claim

Medical severity for lost time claims was up 4% in 2014, the largest increase since 2009

Cumulative Change = 263% (1991-2014p)

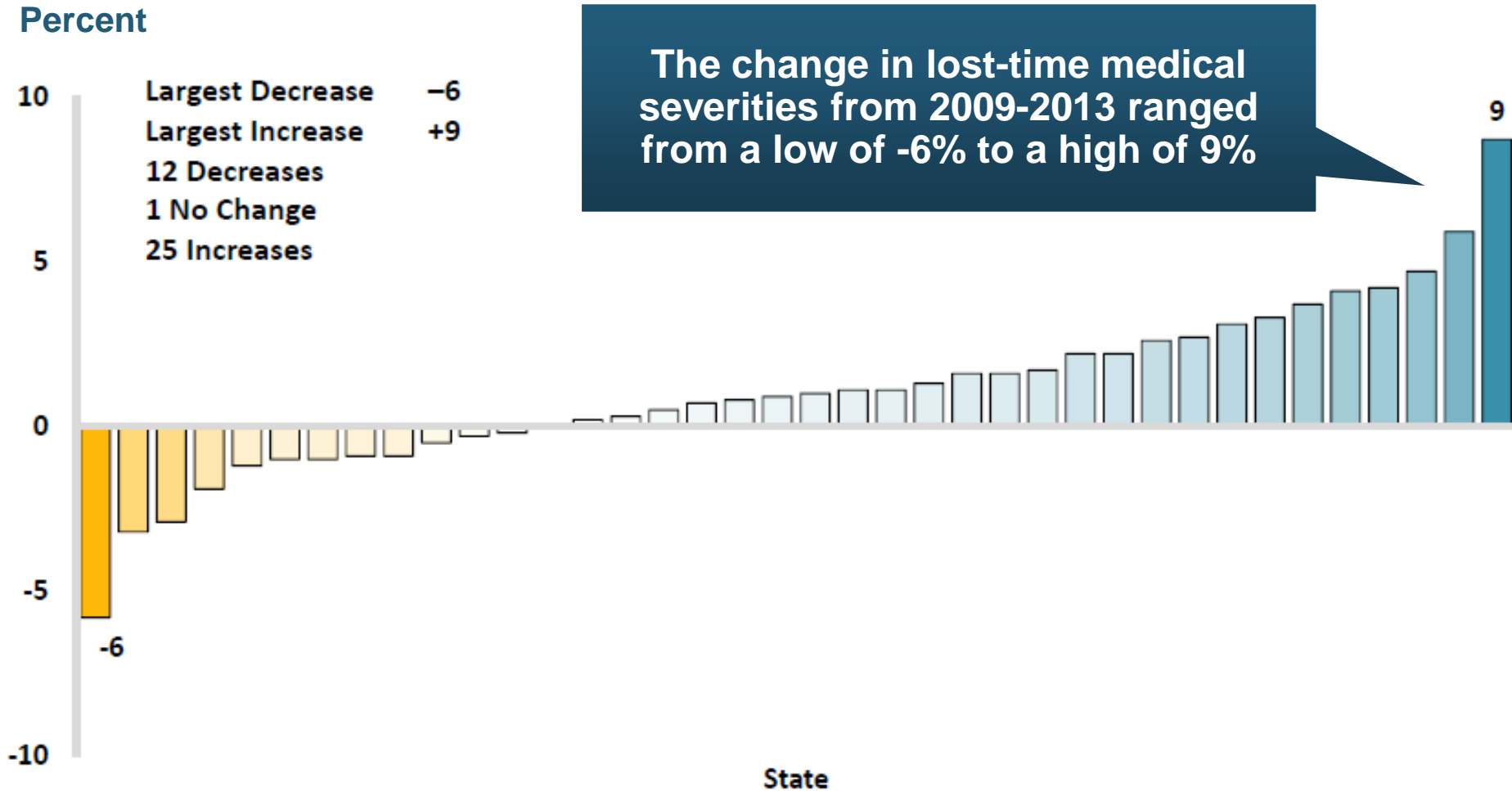


2014p: Preliminary based on data valued as of 12/31/2014.

1991-2013: Based on data through 12/31/2013, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

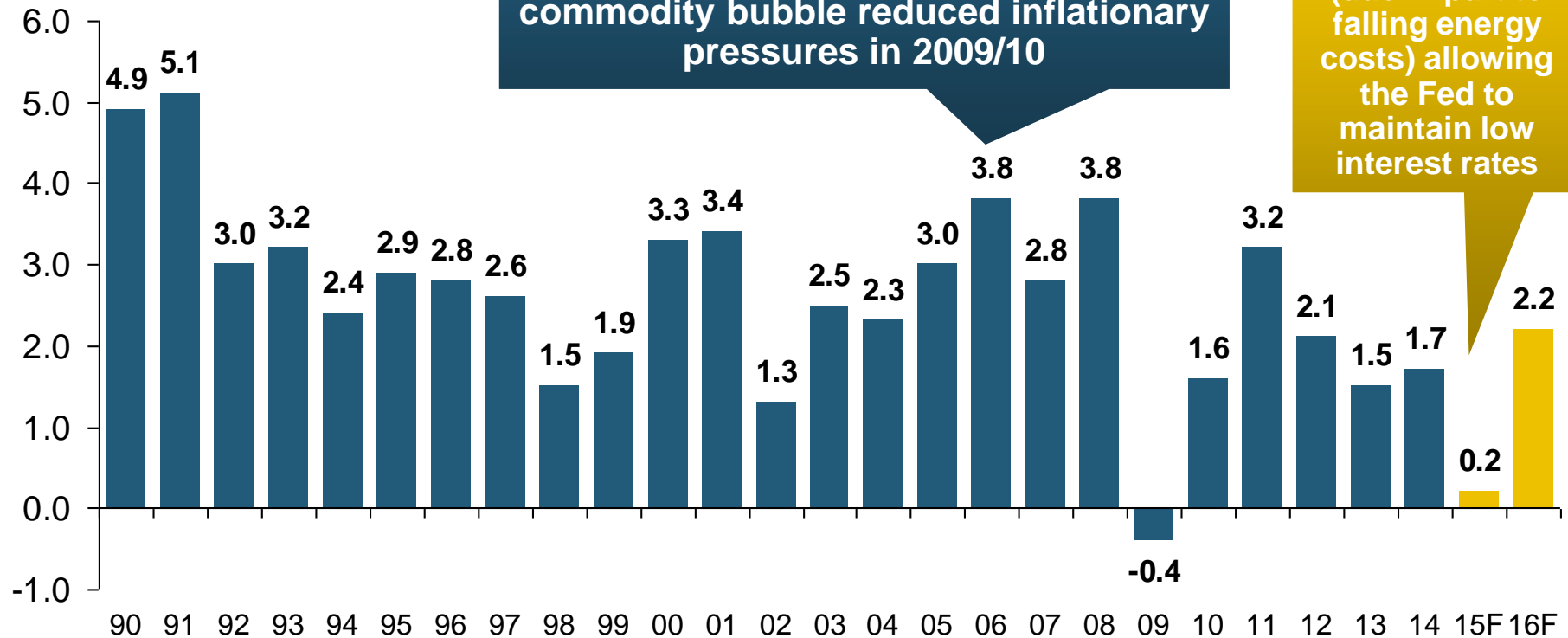
Workers Comp Change in Medical Severity by State, Avg. Annual Change, 2009-2013



Source: NCCI's Analysis of Frequency and Severity of Claims Across the Country as of 12/31/13 on ncci.com.
 Values reflect methodology and state data underlying the most recent rate/lost cost filing.
 TX changes are for the years 2010-2013.

Annual Inflation Rates, (CPI-U, %), 1990–2016F

Annual Inflation Rates (%)



Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

Inflationary expectations have slipped (due in part to falling energy costs) allowing the Fed to maintain low interest rates

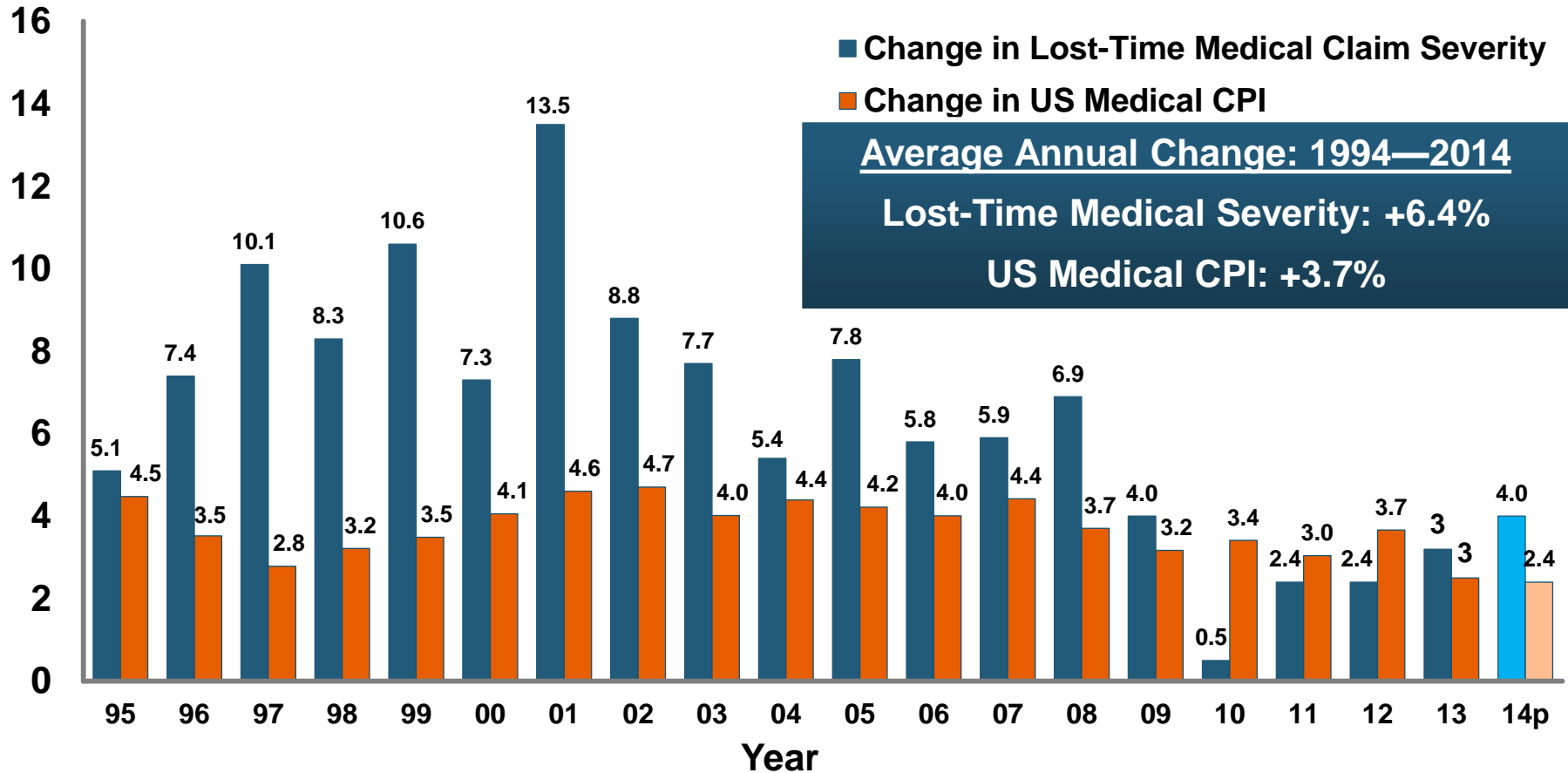
Slack in the U.S. economy and falling energy prices suggests that inflationary pressures should remain subdued for an extended period of times

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 5/15 (forecasts).

Workers Compensation Change in Medical Severity

Comparison to Change in Medical Consumer Price Index (CPI)

Percent Change



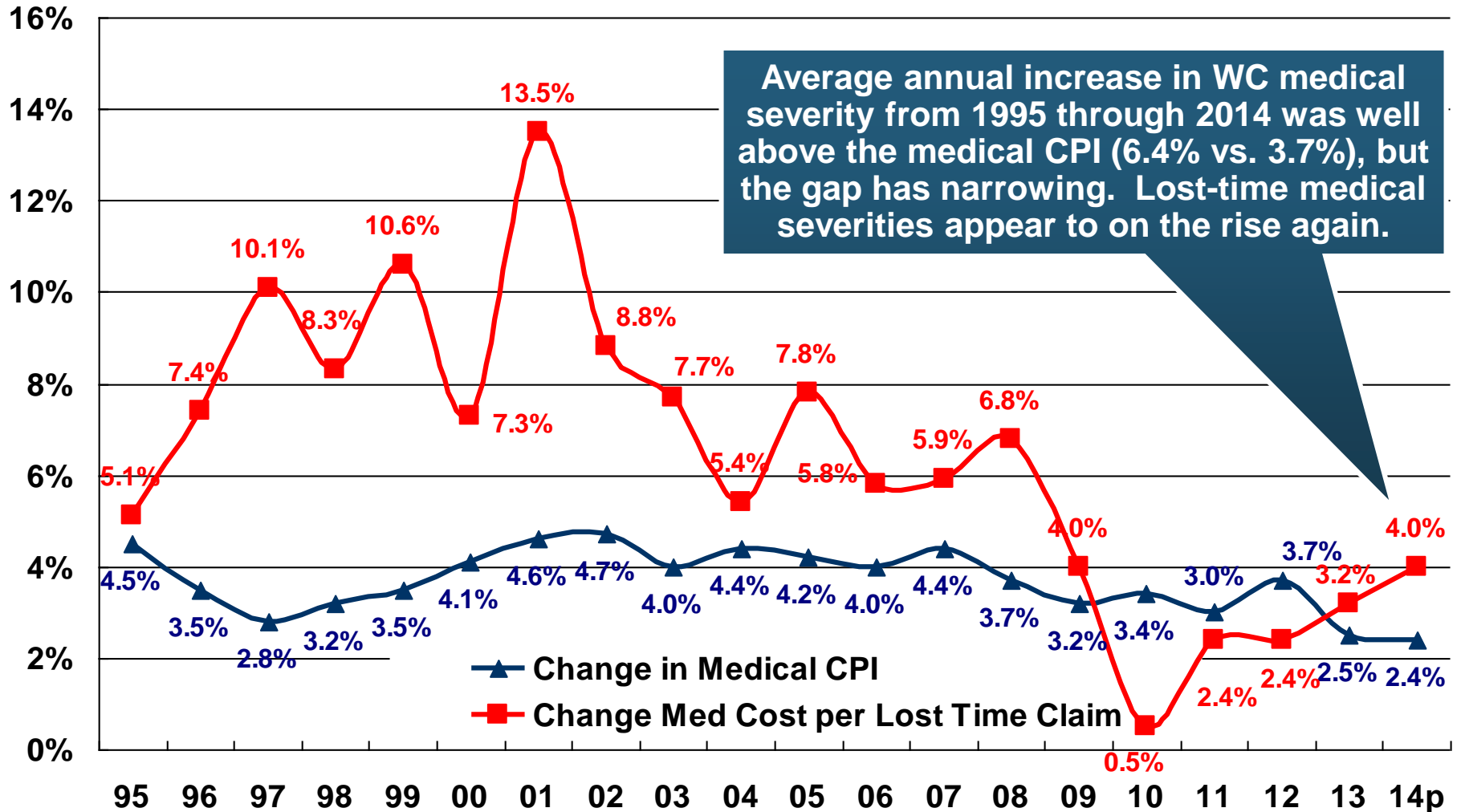
2014p: Preliminary based on data valued as of 12/31/2014.

Sources: Severity: 995-2013: Based on data through 12/31/2013, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

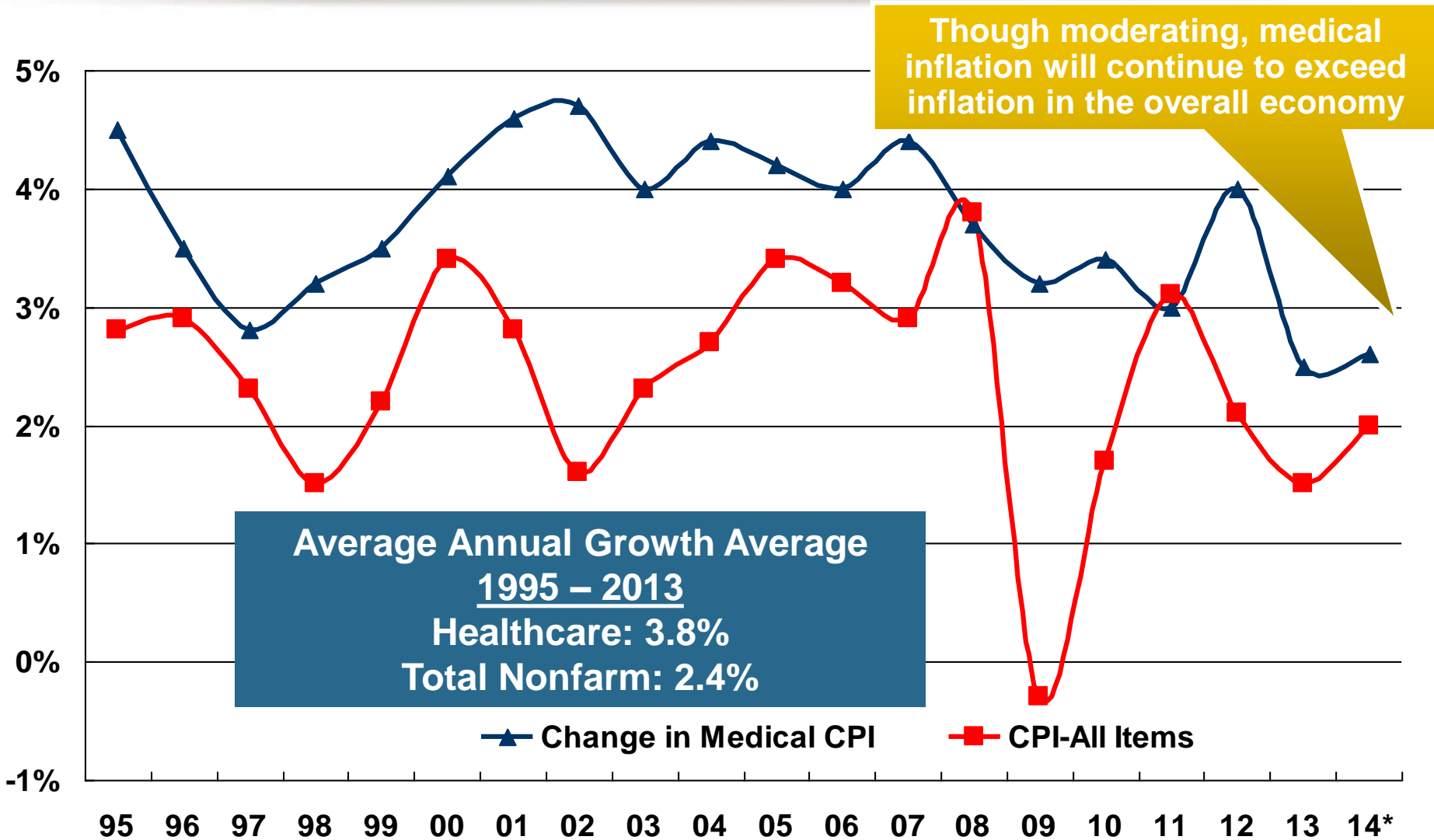
US Medical CPI: US Bureau of Labor Statistics.

WC Medical Severity Generally Outpaces the Medical CPI Rate



Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

Medical Cost Inflation vs. Overall CPI, 1995 – 2014*



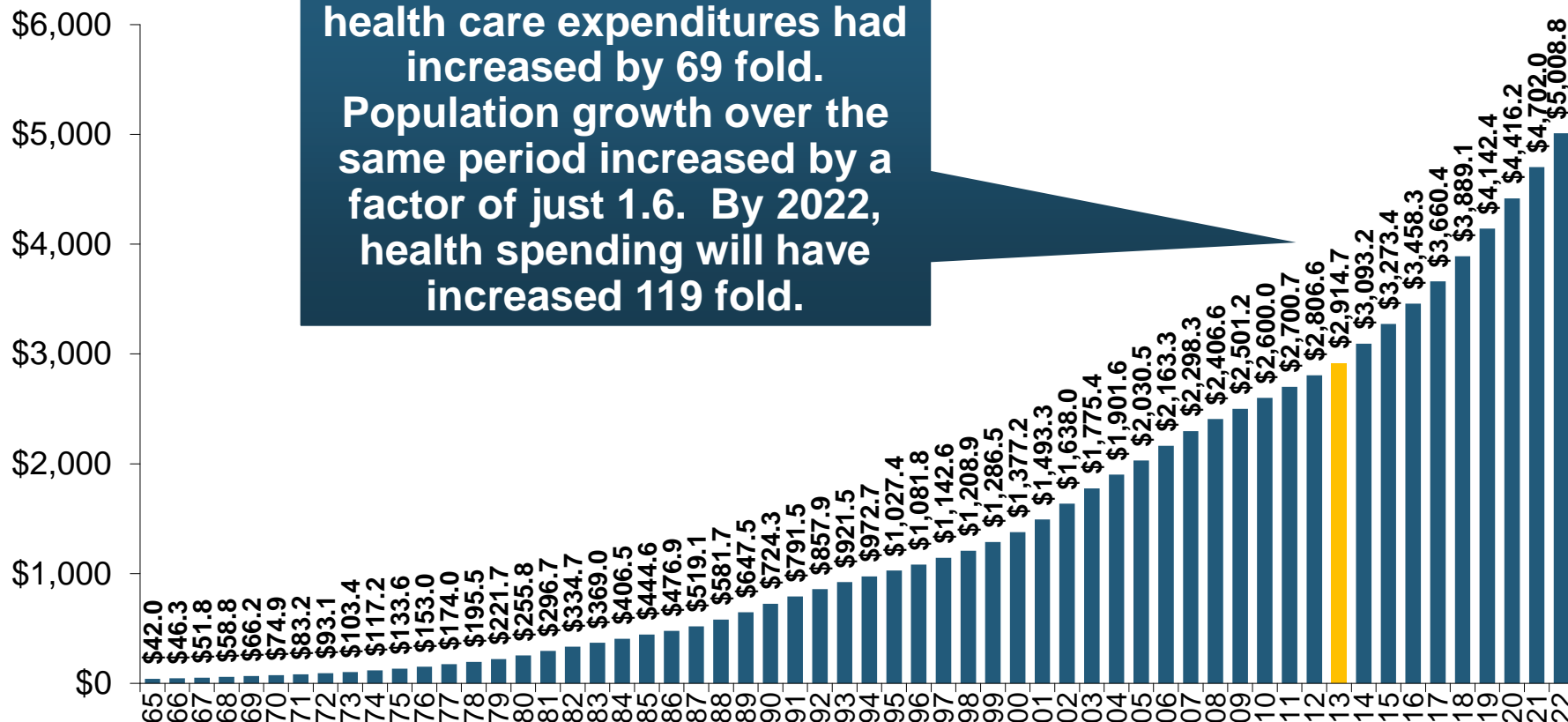
*July 2014 compared to July 2013.

Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

U.S. Health Care Expenditures, 1965–2022F

\$ Billions

From 1965 through 2013, US health care expenditures had increased by 69 fold. Population growth over the same period increased by a factor of just 1.6. By 2022, health spending will have increased 119 fold.

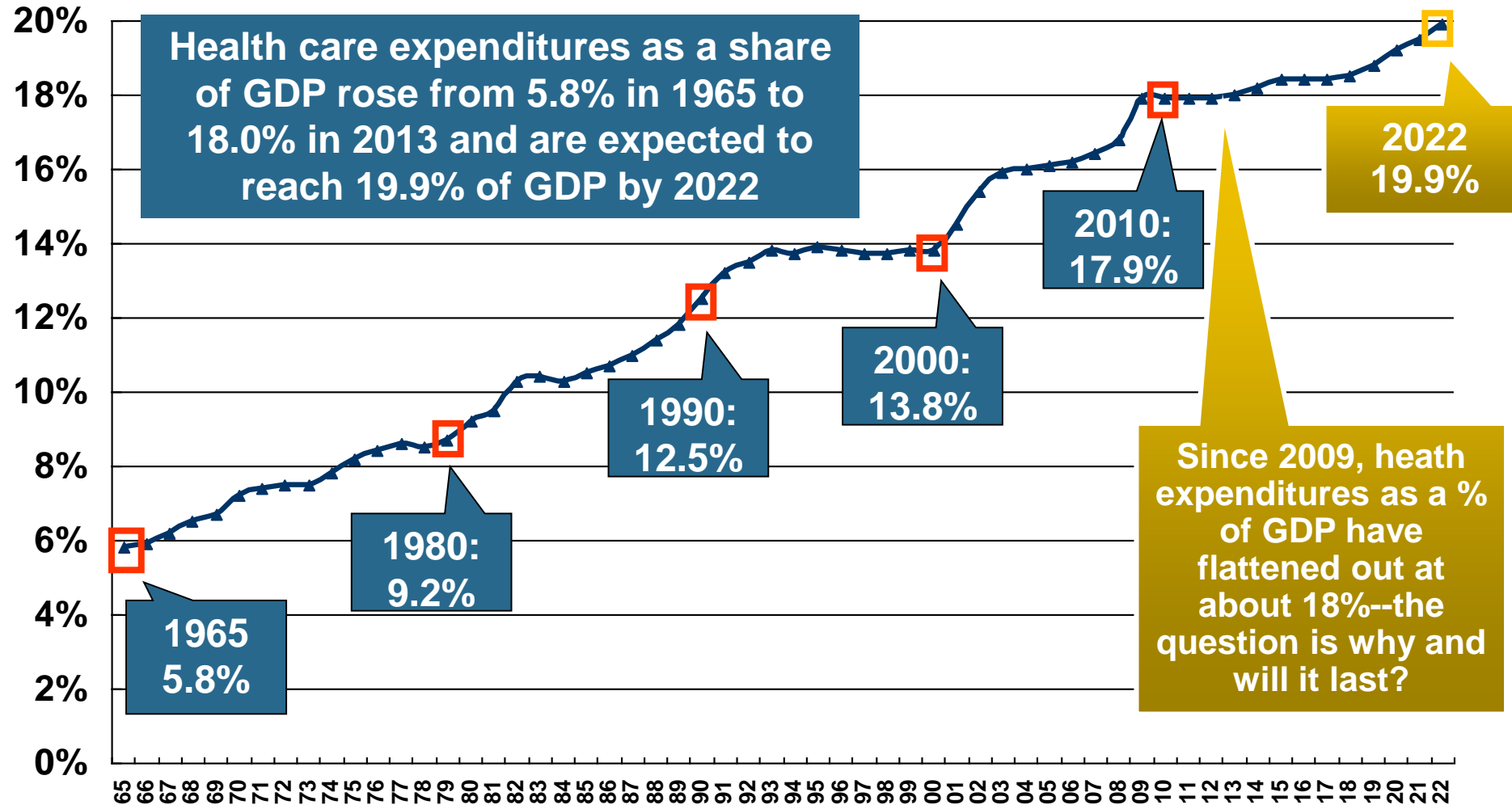


U.S. health care expenditures have been on a relentless climb for most of the past half century, far outstripping population growth, inflation of GDP growth

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html> accessed 3/14/14; Insurance Information Institute.

National Health Care Expenditures as a Share of GDP, 1965 – 2022F*

% of GDP



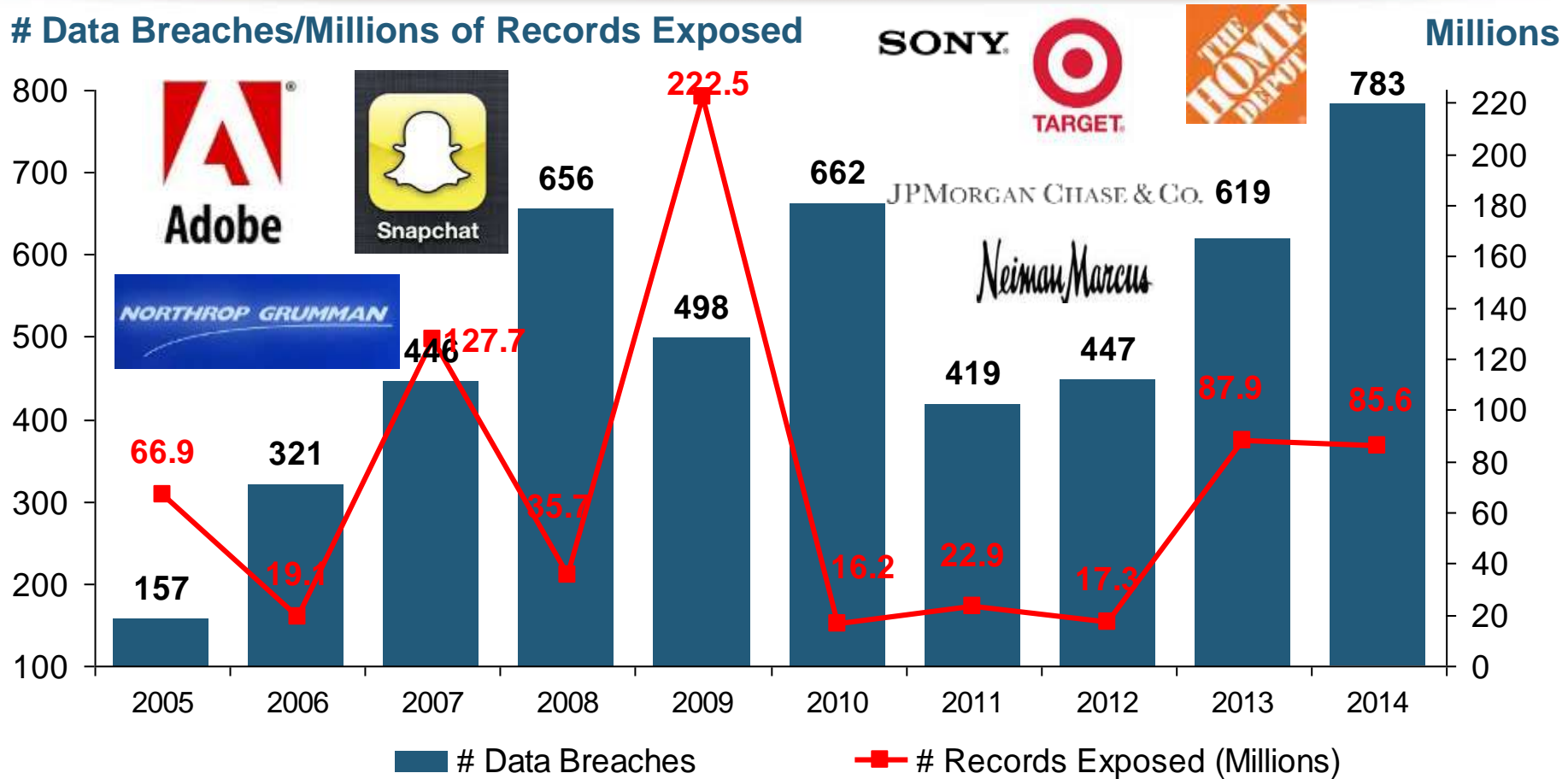
CYBER RISK & CYBER INSURANCE

**Cyber Risk is a Rapidly Emerging
Exposure for Businesses Large and
Small in Every Industry**

***Rapidly Increasing Interest from
Businesses, Media & Public Policymakers***

Data Breaches 2005-2014, by Number of Breaches and Records Exposed

Data Breaches/Millions of Records Exposed

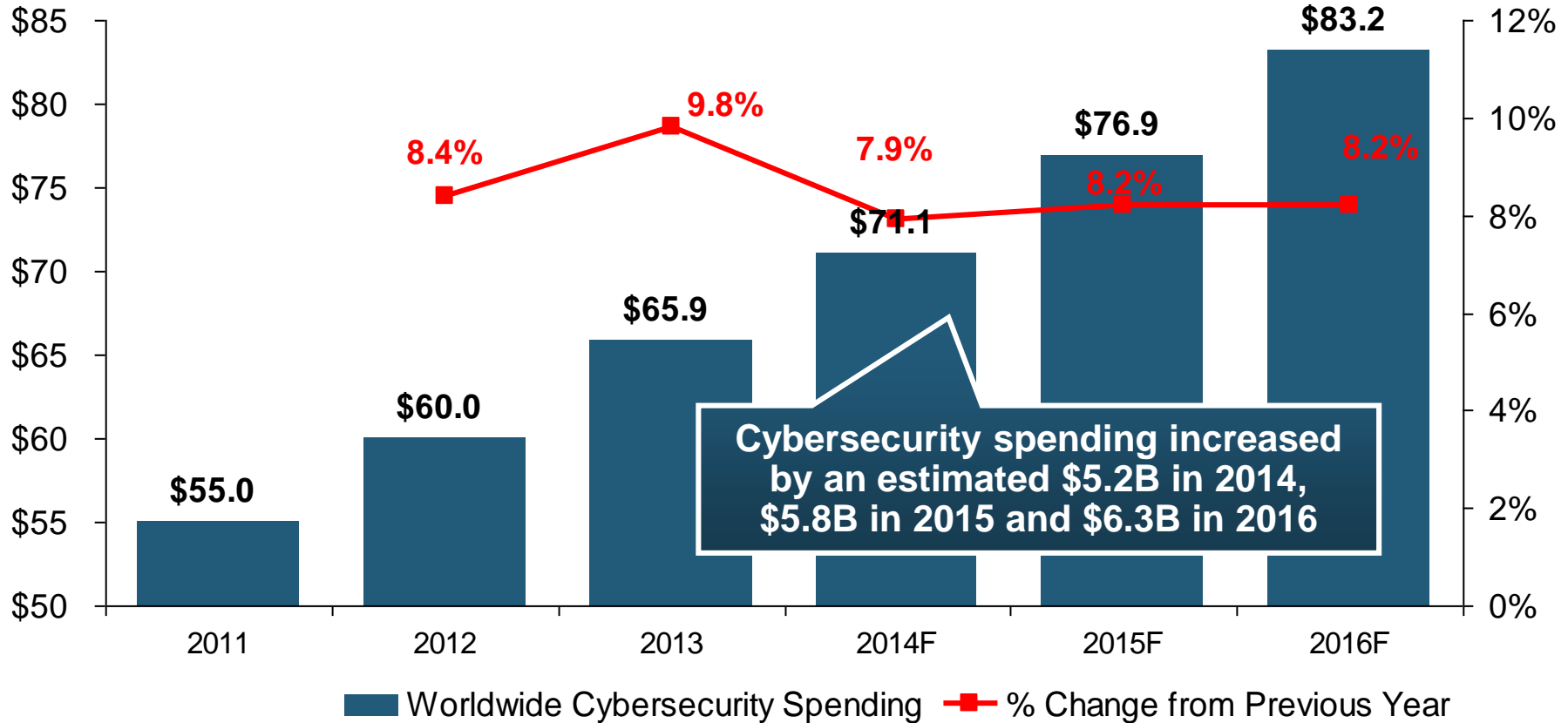


The Total Number of Data Breaches Rose 28% While the Number of Records Exposed Was Relatively Flat (-2.6%)

* 2014 figures as of Jan. 12, 2014 from the ITRC.
Source: Identity Theft Resource Center.

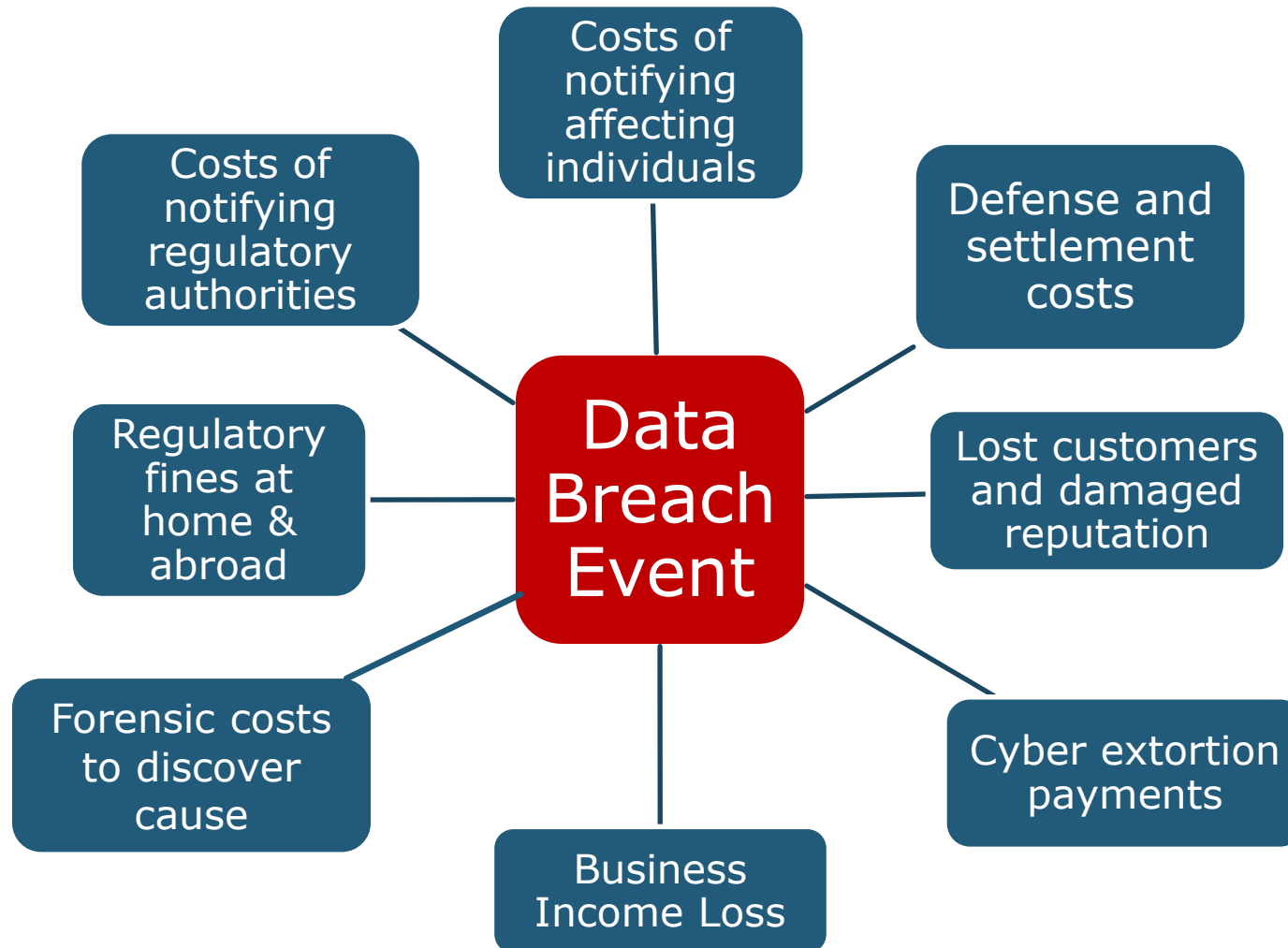
Worldwide Cybersecurity Spending, 2011- 2016F

(\$ Billions)

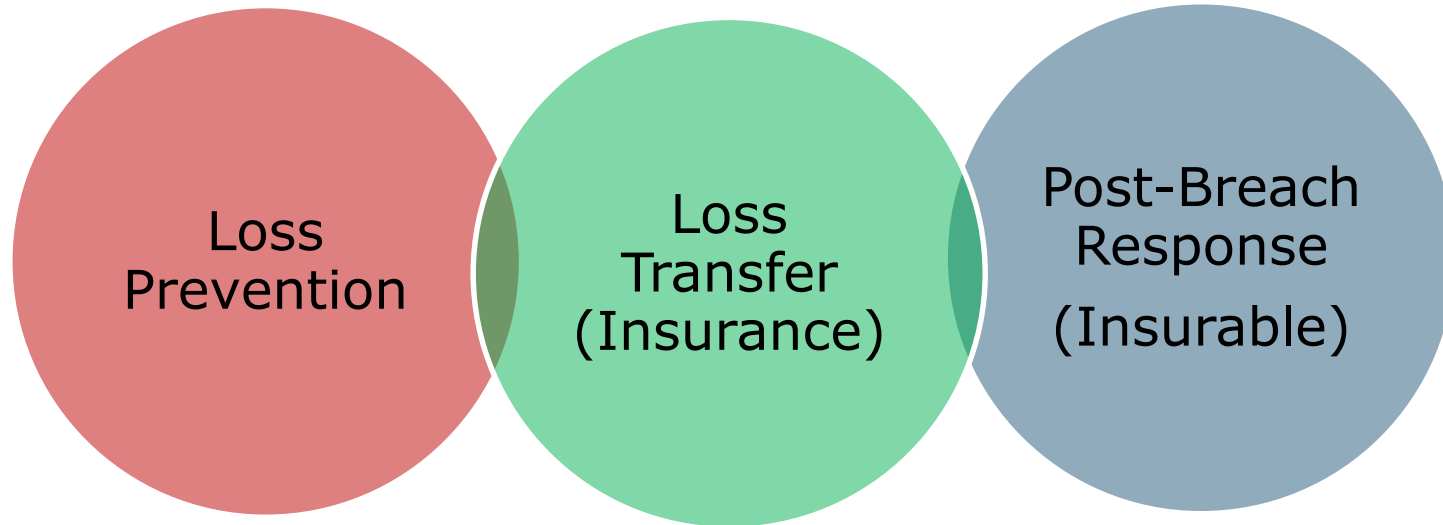


Cybersecurity Spending Is Rising Sharply, Up by About 8%+ Annually through 2016—a Projected Increase of \$12.1 Billion from 2014 to 2016

Data/Privacy Breach: Many Potential Costs Can Be Insured



The Three Basic Elements of Cyber Coverage: Prevention, Transfer, Response



Cyber risk management today involves three essential components, each designed to reduce, mitigate or avoid loss. An increasing number of cyber risk products offered by insurers today provide all three.

I.I.I. Released its Second Cyber Report in 2014: *Cyber Risk: The Growing Threat*



CYBER RISKS: THE GROWING THREAT

JUNE 2014

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- I.I.I.'s 2nd report on cyber risk released June 2014
- Provides information on cyber threats and insurance market solutions
- Global cyber risk overview
 - Quantification of threats by type and industry
- Cyber security and cost of attacks
- Cyber terrorism
- Cyber liability
- Insurance market for cyber risk
- **3rd Report in Q2 2015**

INDUSTRY DISRUPTORS

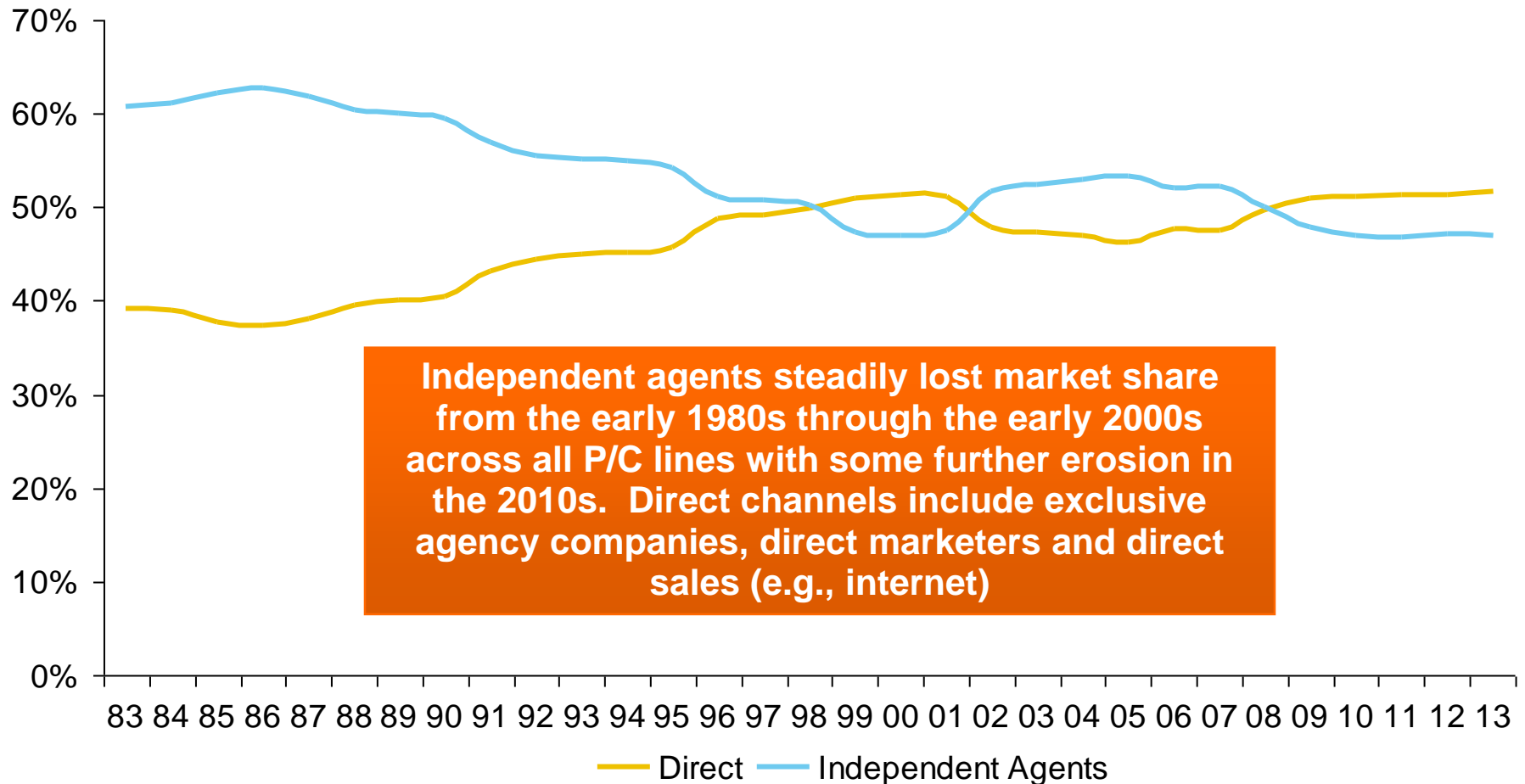
**Technology, Society and
the Economy Are All
Changing at a Rapid Pace**

Thoughts on the Future

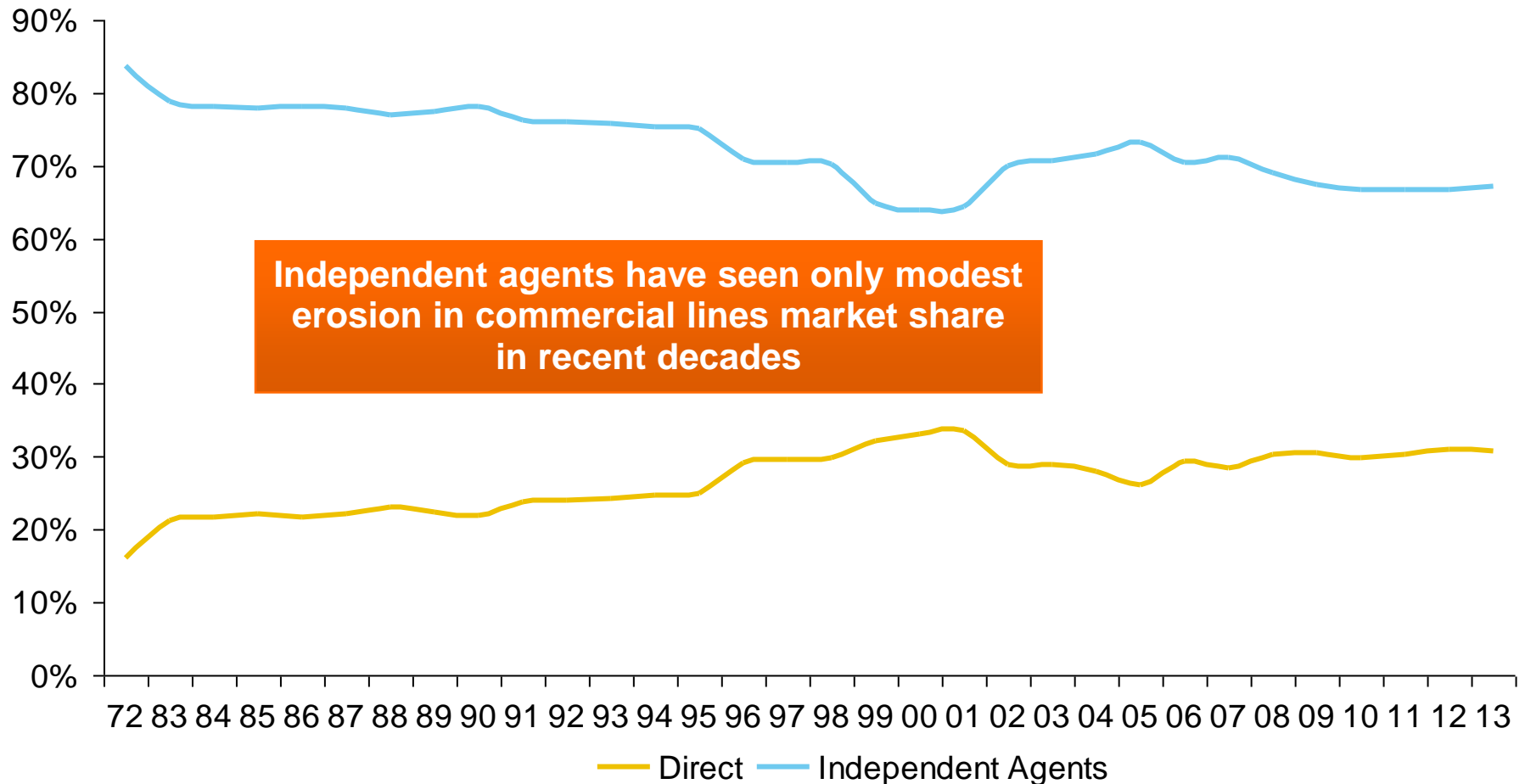
DISTRIBUTION TRENDS

**Distribution by Channel Type
Continues to Evolve Rapidly**

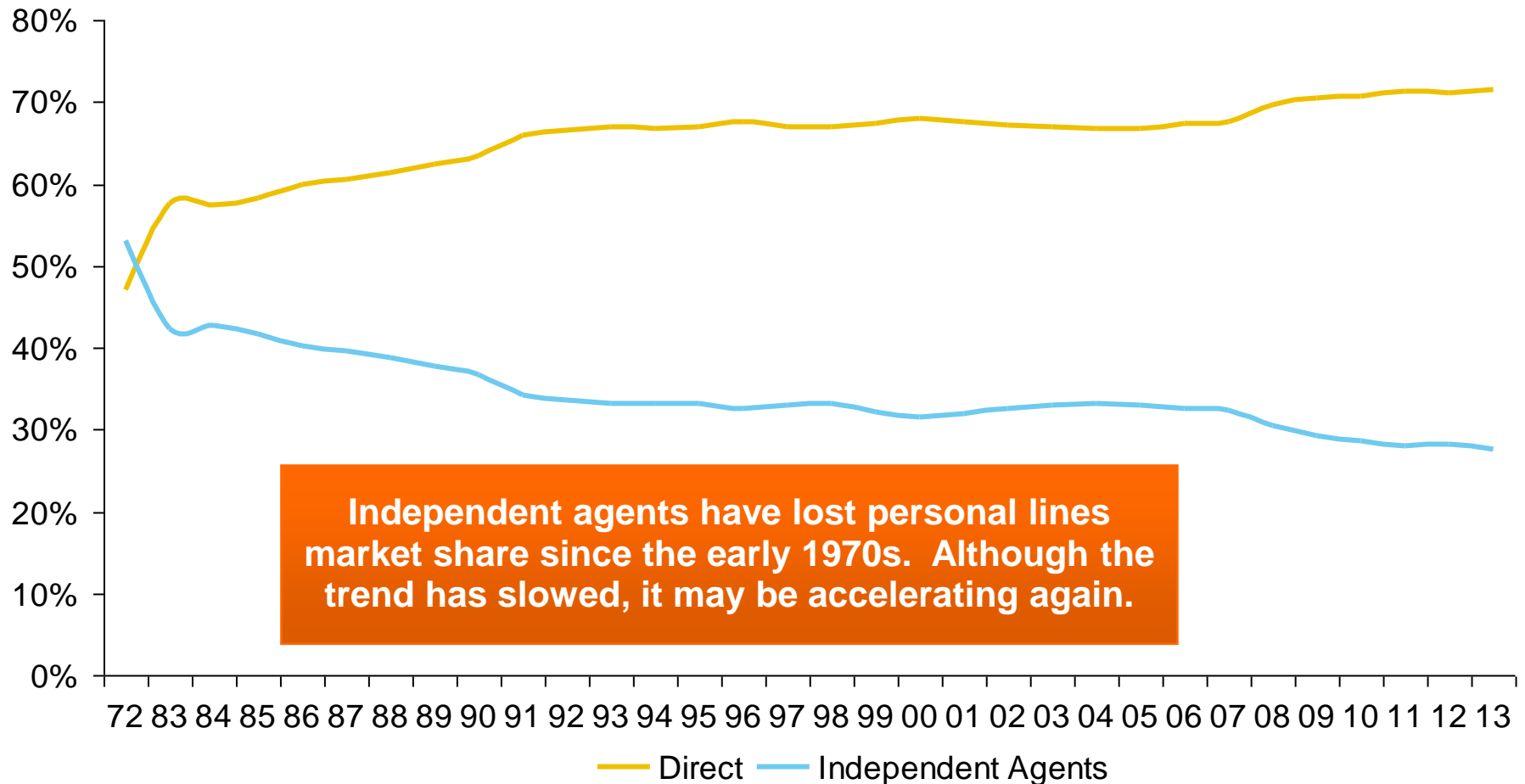
All P/C Lines Distribution Channels, Direct vs. Independent Agents



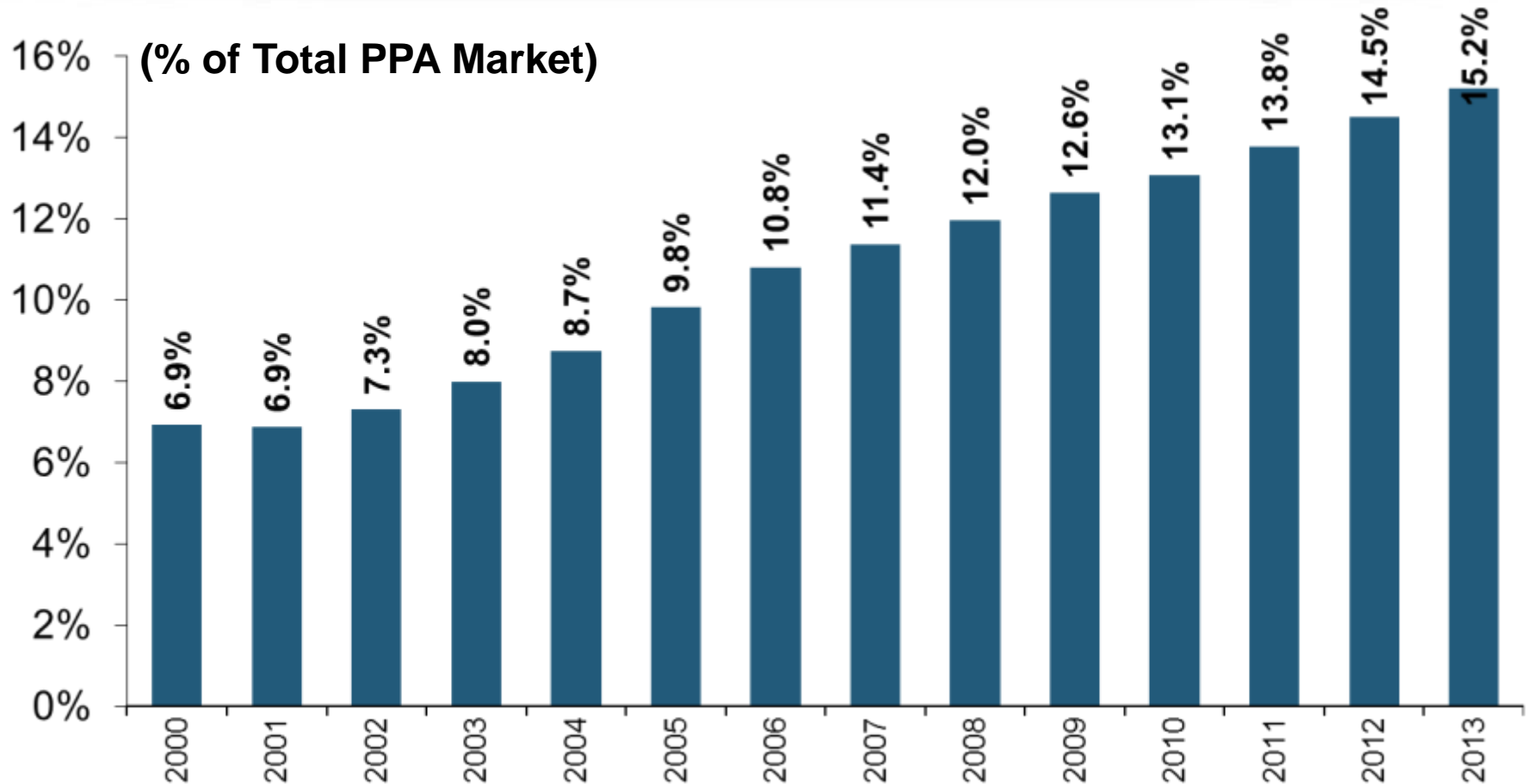
Commercial P/C Distribution Channels, Direct vs. Independent Agents



Personal Lines Distribution Channels, Direct vs. Independent Agents



Growth in Select Major Pvt. Passenger Auto Direct Writers' Market Share*

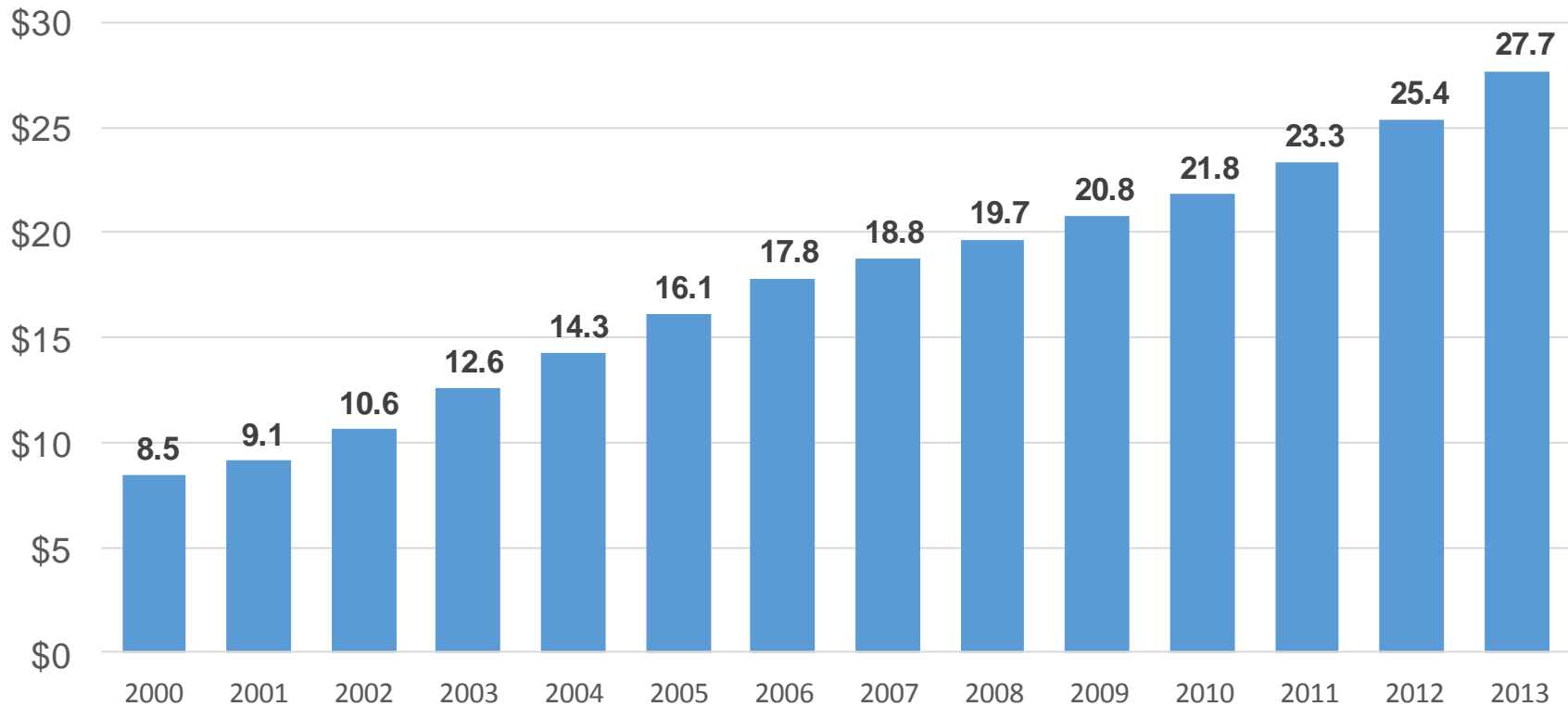


Direct Writers' Market Share Has More Than Doubled Since 2000.

*Includes GEICO, Progressive Direct, Esurance and 21st Century.
Sources: SNL Financial; Insurance Information Institute.

Direct Premiums Written for Select Major Pvt. Passenger Auto Direct Writers'

(\$ Billions)

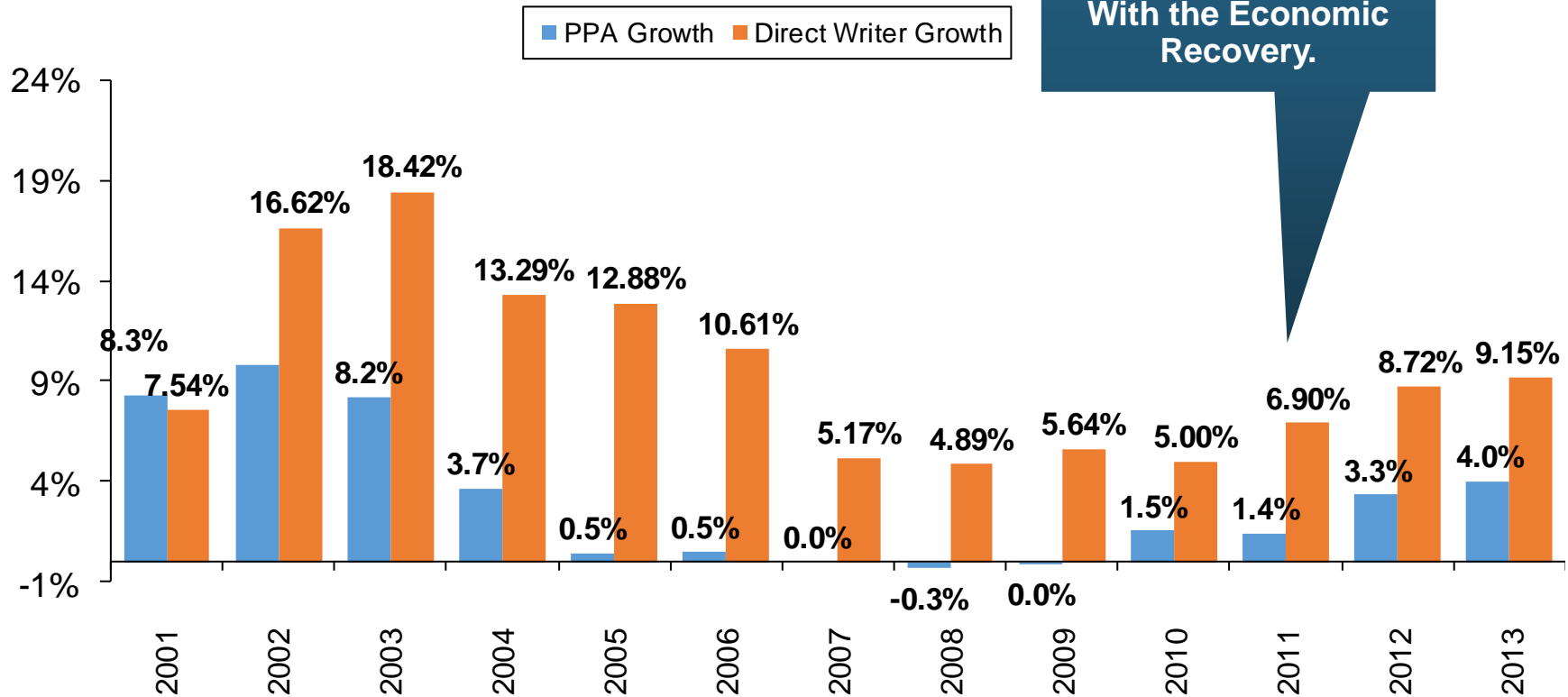


Direct Writers Have More Than Tripled Their Premiums Written Since 2000.

*Includes GEICO, Progressive Direct, Esurance and 21st Century.
Sources: SNL Financial; Insurance Information Institute.

Growth Rates: Major PPA Direct Writers vs. All Private Passenger Auto Writers

(% Growth Vs. Prior Year)



Growth Has Picked Up With the Economic Recovery.

Direct Writers Have Grown Faster Than The Private Passenger Market Since 2002

*Includes GEICO, Progressive Direct, Esurance and 21st Century.

Sources: SNL Financial; Insurance Information Institute.

Top 10 and Direct PP Auto Writers Gained Market Share from 2009 to 2013

2013 Rank		Market Share (%)					Market Share Change			
		2009	2010	2011	2012	2013	2010	2011	2012	2013
1	State Farm Mutl Automobile Ins	18.09%	18.11%	18.07%	17.87%	17.97%	0.03%	-0.04%	-0.21%	0.10%
2	Berkshire Hathaway Inc.	8.35%	8.64%	9.22%	9.72%	10.35%	0.29%	0.58%	0.50%	0.63%
3	Allstate Corp.	11.13%	10.85%	10.48%	10.15%	10.03%	-0.29%	-0.36%	-0.34%	-0.11%
4	Progressive Corp.	7.58%	7.83%	8.06%	8.37%	8.54%	0.24%	0.23%	0.32%	0.16%
5	Farmers Insurance Group of Cos	6.46%	6.06%	5.99%	5.97%	5.49%	-0.40%	-0.07%	-0.02%	-0.48%
6	USAA Insurance Group	4.13%	4.39%	4.63%	4.87%	5.06%	0.26%	0.24%	0.23%	0.19%
7	Liberty Mutual	4.43%	4.57%	4.62%	4.80%	5.02%	0.14%	0.04%	0.18%	0.22%
8	Nationwide Mutual Group	4.64%	4.37%	4.20%	4.14%	4.04%	-0.27%	-0.17%	-0.06%	-0.10%
9	American Family Mutual	2.18%	2.13%	2.00%	1.92%	1.91%	-0.05%	-0.14%	-0.08%	0.00%
10	Travelers Companies Inc.	2.08%	2.14%	2.12%	1.97%	1.77%	0.06%	-0.02%	-0.15%	-0.20%
Top 10 Market Share		69.1%	69.1%	69.4%	69.8%	70.2%	0.01%	0.30%	0.39%	0.41%
11	Hartford Financial Services	1.64%	1.53%	1.41%	1.34%	1.31%	-0.11%	-0.12%	-0.07%	-0.03%
12	Auto Club Exchange Group	1.27%	1.28%	1.30%	1.30%	1.30%	0.01%	0.02%	0.00%	-0.01%
13	Erie Insurance Group	1.15%	1.19%	1.20%	1.21%	1.23%	0.04%	0.01%	0.01%	0.02%
14	MetLife Inc.	1.24%	1.24%	1.23%	1.22%	1.23%	-0.01%	-0.01%	-0.01%	0.01%
15	Mercury General Corp.	1.30%	1.26%	1.24%	1.22%	1.19%	-0.04%	-0.02%	-0.02%	-0.04%
16	CSAA Insurance Exchange	1.19%	1.18%	1.17%	1.14%	1.11%	-0.01%	-0.01%	-0.03%	-0.02%
17	Auto-Owners Insurance Co.	0.84%	0.91%	0.98%	0.99%	0.99%	0.07%	0.07%	0.01%	0.00%
18	Auto Club Insurance Assoc Grp	0.85%	0.89%	0.91%	0.91%	0.90%	0.04%	0.02%	0.00%	-0.01%
19	MAPFRE	0.82%	0.86%	0.89%	0.83%	0.82%	0.04%	0.02%	-0.06%	-0.01%
20	Infinity P&C Corp.	0.49%	0.55%	0.61%	0.68%	0.70%	0.06%	0.07%	0.07%	0.01%
#11-#20 Total Market Share		10.8%	10.9%	10.9%	10.8%	10.8%	0.09%	0.05%	-0.11%	-0.07%
Top 20 Market Share		79.9%	80.0%	80.3%	80.6%	80.9%	0.10%	0.35%	0.28%	0.34%
Rest of Industry Market Share		20.1%	20.0%	19.7%	19.4%	19.1%	-0.10%	-0.35%	-0.28%	-0.34%
TOTAL		100.0%	100.0%	100.0%	100.0%	100.0%				

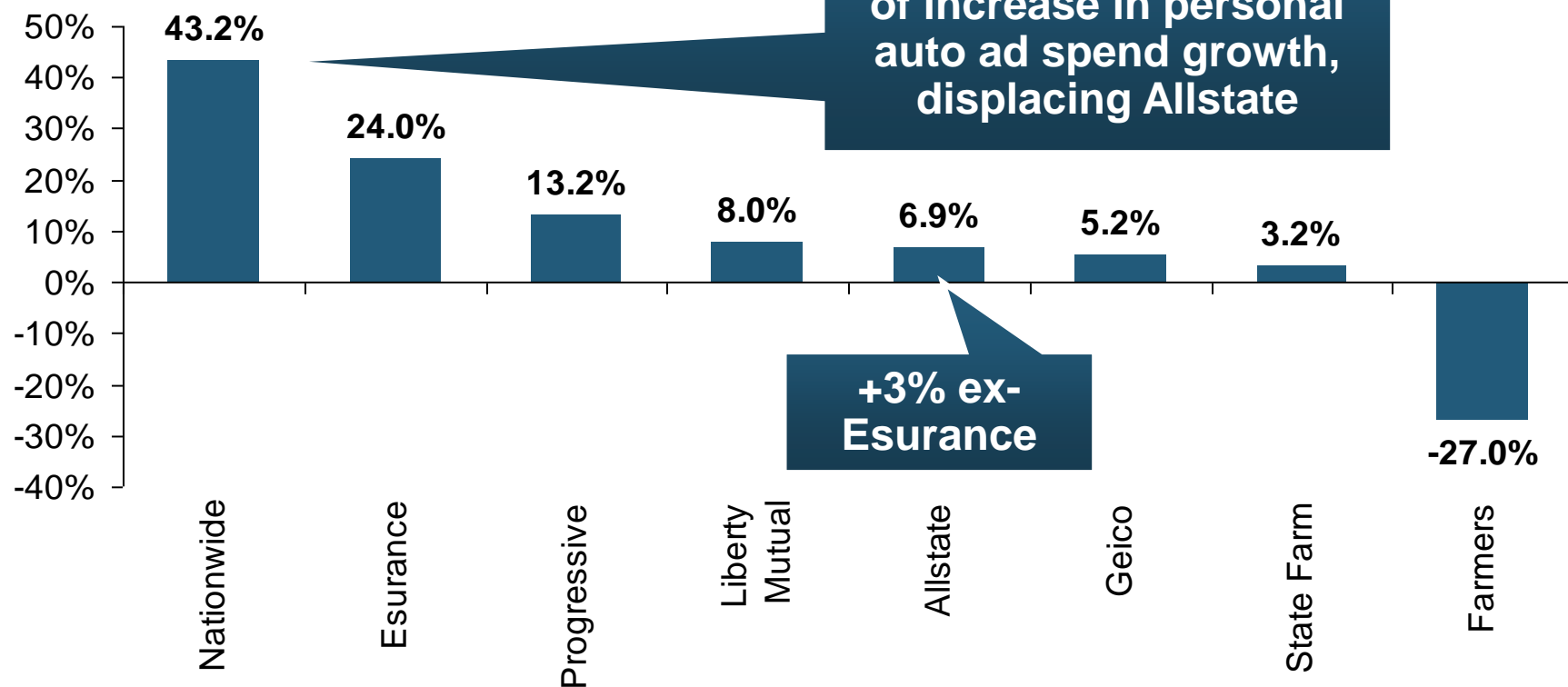
Top Line Growth of Major Independent Agency PP Auto Writers, 2009 – 2014H1

	2009	2010	2011	2012	2013	1H14
Progressive Agency Pool	0.9%	0.9%	2.5%	6.7%	5.2%	3.7%
Travelers	-0.7%	4.4%	0.4%	-3.8%	-6.3%	-2.3%
Nationwide Mutual	-2.5%	-4.5%	-2.4%	2.7%	2.0%	1.3%
Safeco	-12.0%	4.3%	-1.4%	12.6%	26.3%	11.7%
Mercury	-8.4%	-1.9%	0.0%	1.9%	1.3%	3.5%
Erie	2.2%	4.7%	2.4%	4.4%	6.4%	6.5%
Auto-Owners	8.2%	10.3%	8.7%	4.6%	4.4%	4.7%
Zurich/Farmers	-7.4%	-4.7%	0.0%	3.2%	-3.8%	-3.5%
Hartford	0.0%	-5.1%	-6.7%	-1.8%	2.0%	3.5%
Mapfre	-4.8%	6.2%	3.6%	-3.3%	3.4%	1.3%
Infinity	-5.7%	13.8%	13.7%	15.7%	6.5%	0.5%

Independent Agency carriers have turned in a mixed growth performance in the PP Auto line in 2014

Advertising Spend Change by Select Personal Auto Writers: 2013 vs. 2012

Percentage Change (%)

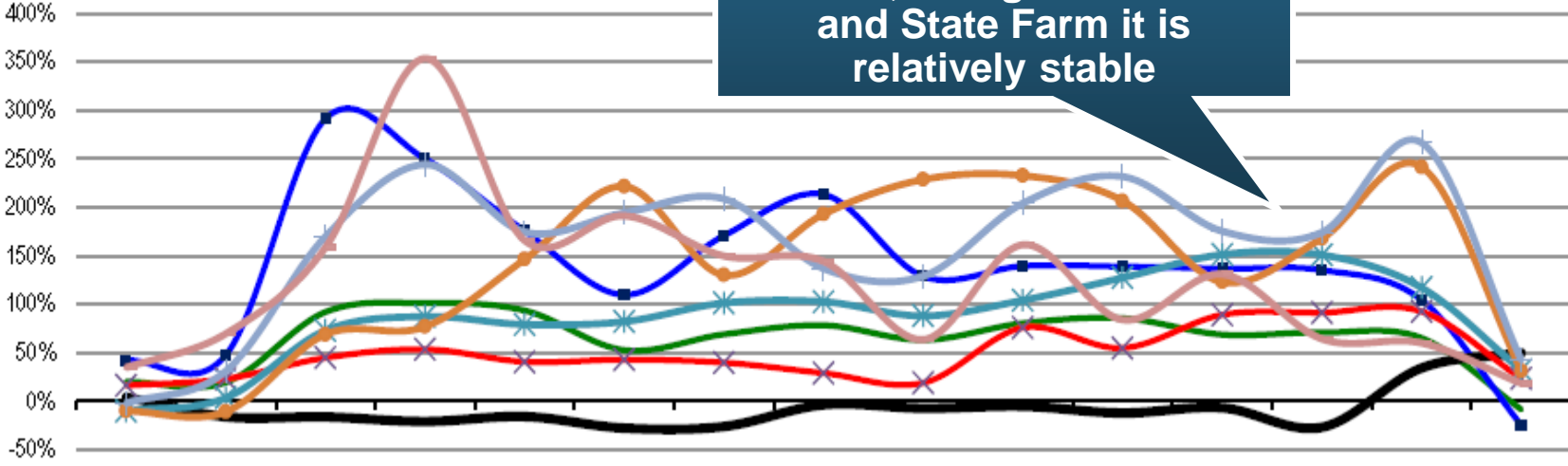


Changes in ad spending vary widely across auto insurers

Y/Y Change in Unique Website Visitors of Select Personal Auto Writers, Aug. 2013 – Oct. 2014



Visitor traffic can be highly volatile, though for GEICO and State Farm it is relatively stable

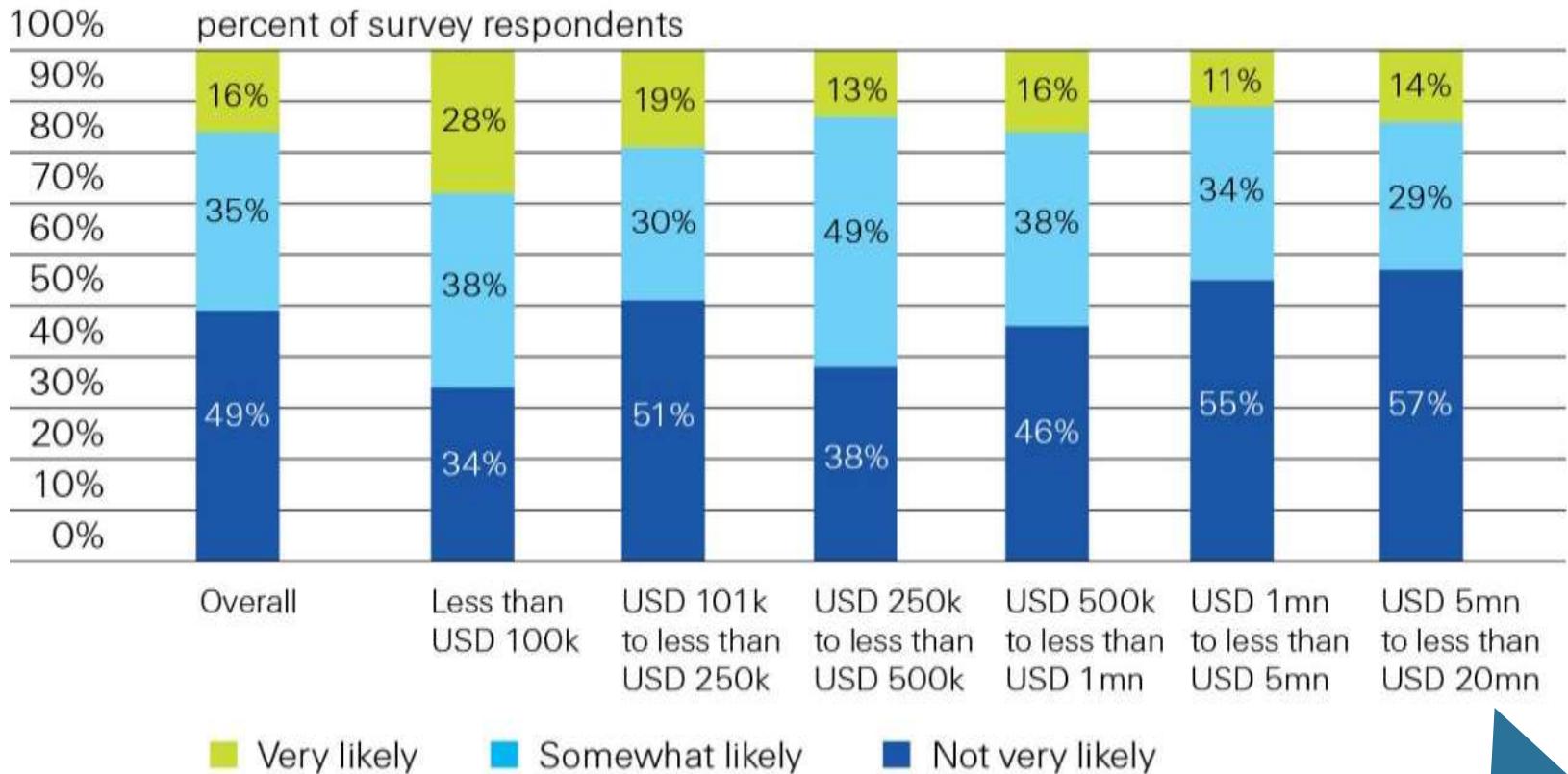


Aug-2013 Sep-2013 Oct-2013 Nov-2013 Dec-2013 Jan-2014 Feb-2014 Mar-2014 Apr-2014 Mby-2014 Jun-2014 Jul-2014 Aug-2014 Sep-2014 Oct-2014

	Aug-2013	Sep-2013	Oct-2013	Nov-2013	Dec-2013	Jan-2014	Feb-2014	Mar-2014	Apr-2014	Mby-2014	Jun-2014	Jul-2014	Aug-2014	Sep-2014	Oct-2014
GEICO	20.1%	19.4%	91.9%	101.2%	93.4%	52.6%	69.0%	78.3%	63.2%	80.4%	85.5%	68.6%	70.9%	65.1%	-8.6%
PROGRESSIVE.COM	42.1%	47.7%	291.3%	249.9%	175.4%	109.7%	170.8%	213.1%	128.7%	139.3%	138.9%	136.7%	135.2%	104.3%	-24.9%
STATEFARM.COM	3.9%	-16.2%	-16.3%	-21.0%	-15.9%	-27.8%	-26.1%	-3.8%	-7.4%	-5.3%	-12.2%	-6.9%	-26.9%	34.2%	49.8%
ALLSTATE.COM	16.1%	23.0%	44.7%	53.5%	40.6%	42.9%	39.7%	28.9%	18.9%	75.8%	54.8%	89.1%	91.3%	92.4%	23.2%
USAA	-10.3%	3.4%	73.0%	87.3%	79.1%	82.1%	101.3%	102.6%	87.9%	104.1%	127.3%	151.3%	150.9%	117.0%	31.9%
LIBERTY MUTUAL	-10.2%	-10.9%	68.8%	76.9%	146.3%	221.5%	130.0%	193.0%	228.6%	232.6%	206.6%	122.9%	168.0%	241.5%	31.4%
NATIONWIDE	-2.3%	31.0%	169.8%	244.0%	174.4%	194.3%	208.6%	136.7%	129.1%	204.2%	231.6%	175.3%	174.2%	266.5%	42.5%
ESURANCE	34.6%	69.6%	158.5%	353.5%	165.6%	191.1%	149.7%	144.1%	63.5%	161.3%	83.9%	130.8%	64.1%	59.9%	18.3%

Sources: SNL data, Evercore ISI Research, Nov. 2014.

Proportion of Businesses Interested in Buying Insurance Online



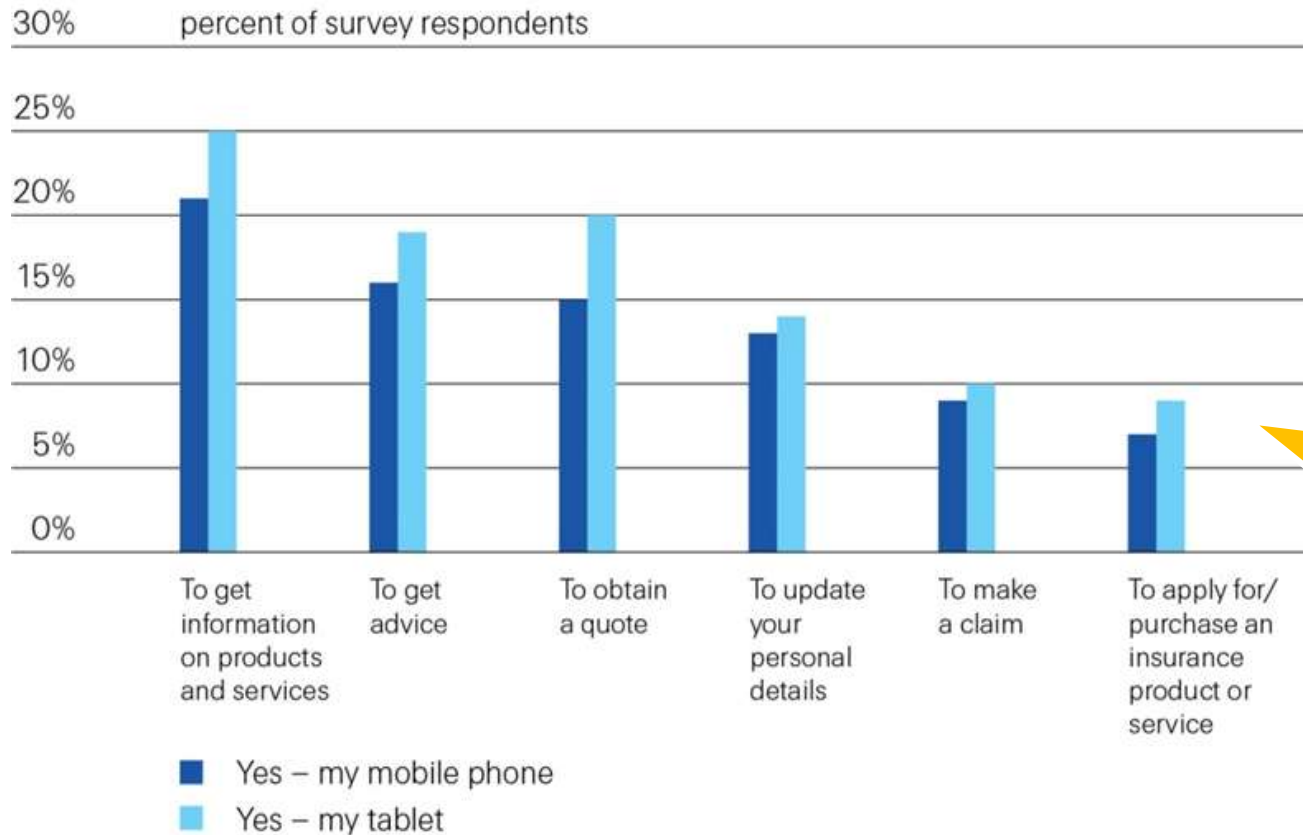
Interest diminishes with account size

Likelihood of small US businesses buying insurance online directly from the insurer, overall and by annual company revenue, in 2013

Source: Swiss Re from "Voice of the Small Commercial Insurance Consumer Survey." Deloitte, March (2013)

The Rise of the Smart Phone: Technology is Available for All Distribution Channels

Use of smart mobile devices in insurance distribution



% Positive Responses to the Question: Have you used your mobile device in the past two years to deal online with an insurer?

Smart phones are a technology available to all distribution channels

Note: Share of positive responses to the question: "Have you used your mobile device in the past two years to deal online with an insurer?"

Source: Swiss Re from "2013 Consumer-Driven Innovation Survey." Accenture (2013)

- New uses for mobile increase potential for accessing the previously uninsured
 - Insurance premiums can be collected via mobile (through mobile money platforms or through airtime deductions)
 - Collection methods typically depend on regulation

Innovative Examples

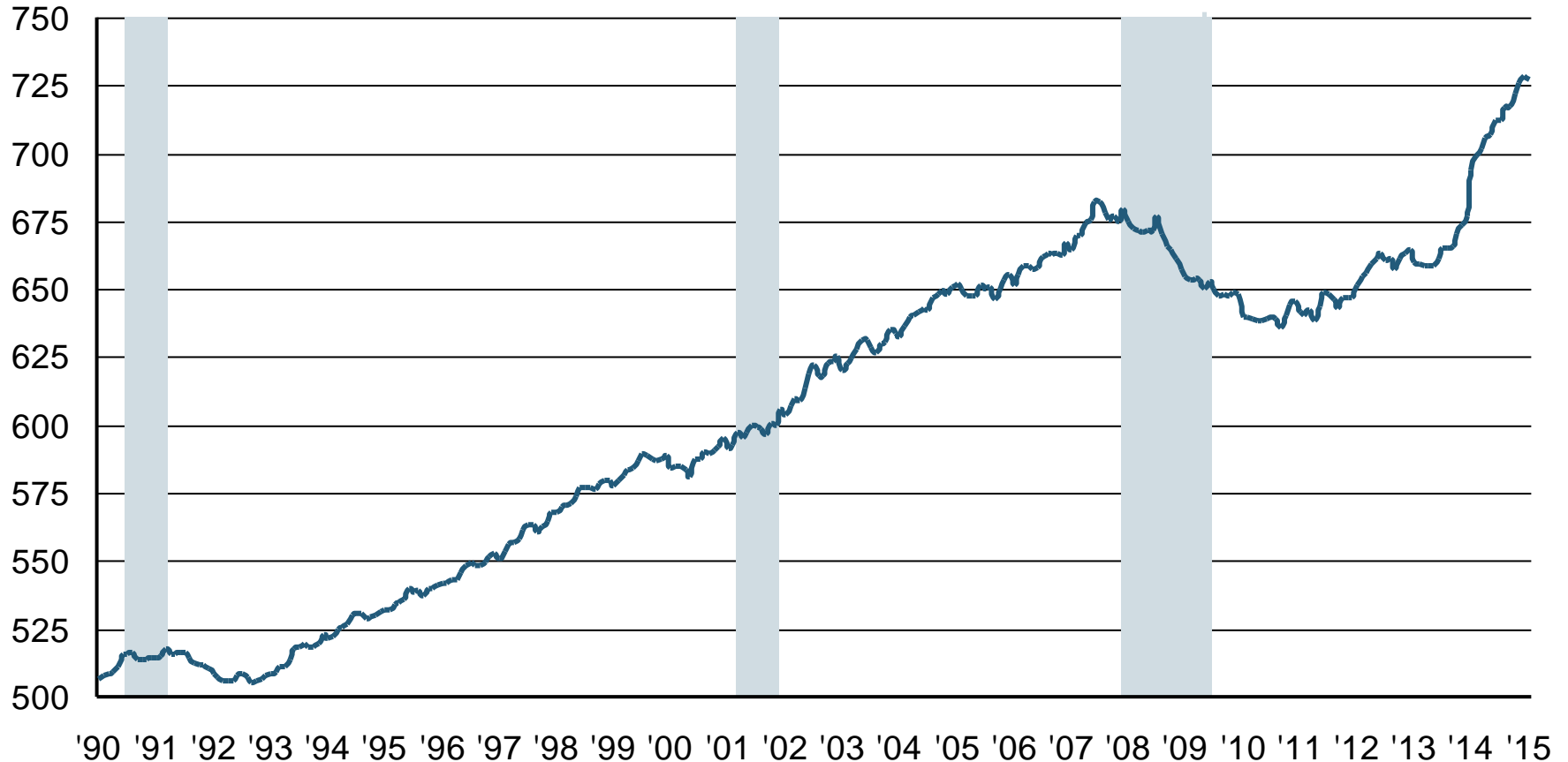
- MicroEnsure – using algorithms to track down potential claims
- Bima – using mobile to monitor agent performance and verify that consumers get the right information
- Kilimo Salama – using just 2 mobile data points (GPS location and date of text), combined with satellite technology, to underwrite crop insurance
- IFFCO-Tokio – mobile biometric identification for livestock insurance

DISTRIBUTION DEMOGRAPHICS

**Employment Among Agents and
Brokers Has Recovered but
Consolidation Trends Will
Persist**

U.S. Employment in Insurance Agencies & Brokerages: 1990–2015*

Thousands



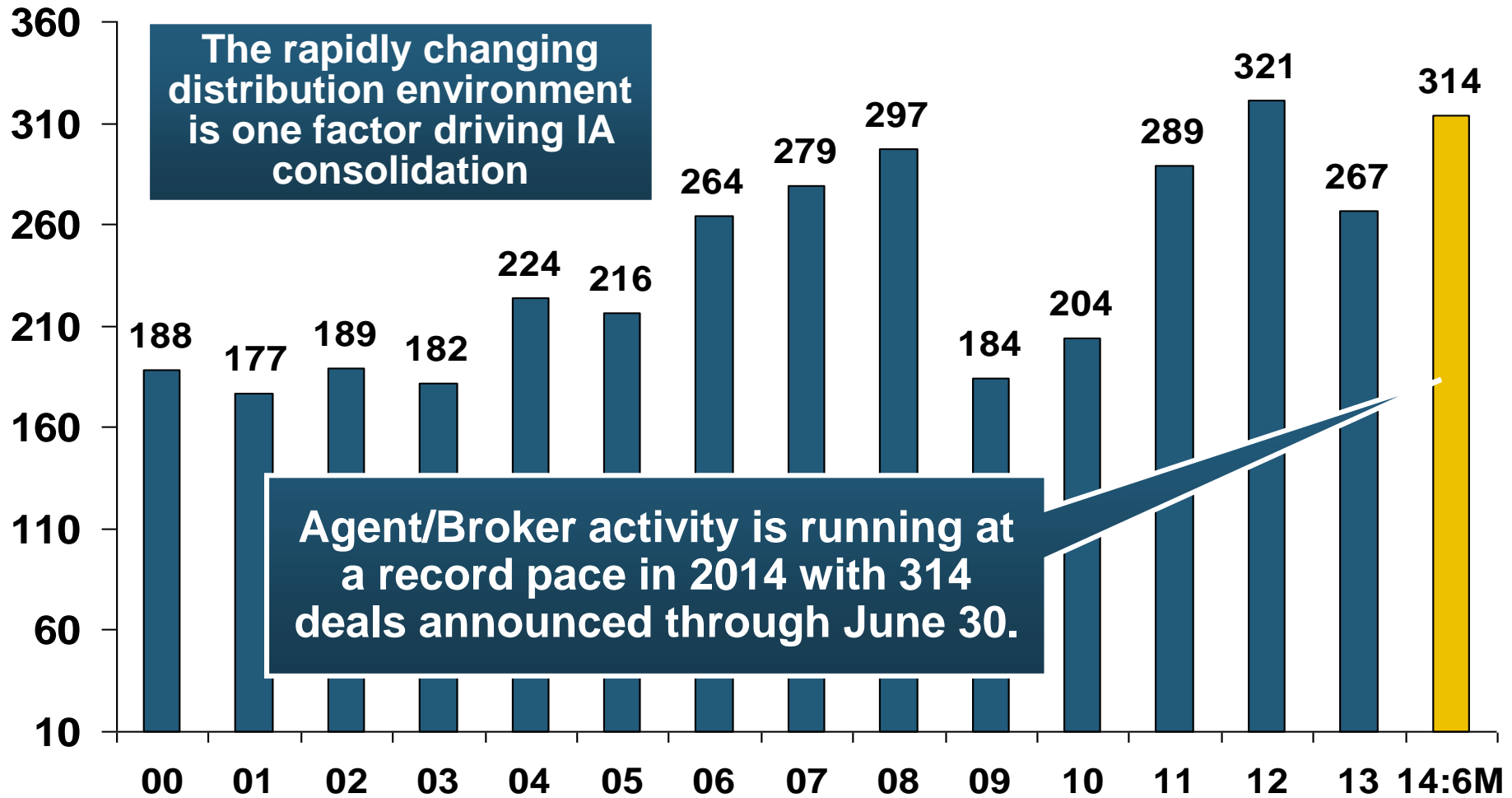
*As of January 2015; not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Agent/Broker M&A Deals, 2000-2014:6M

Number of Deals



“BIG DATA”

**More and Better Data Combined
with Consumer Interactivity Are
Transforming Many Industries—
*Including Insurance***

Percentage of Carriers Using Predictive Analytics by Major P/C Line, 2013

Predictive analytics is more like to be used in personal lines, but commercial lines use is growing

82% of insurers report using predictive analytics in at least one line. 18% do not use it all.

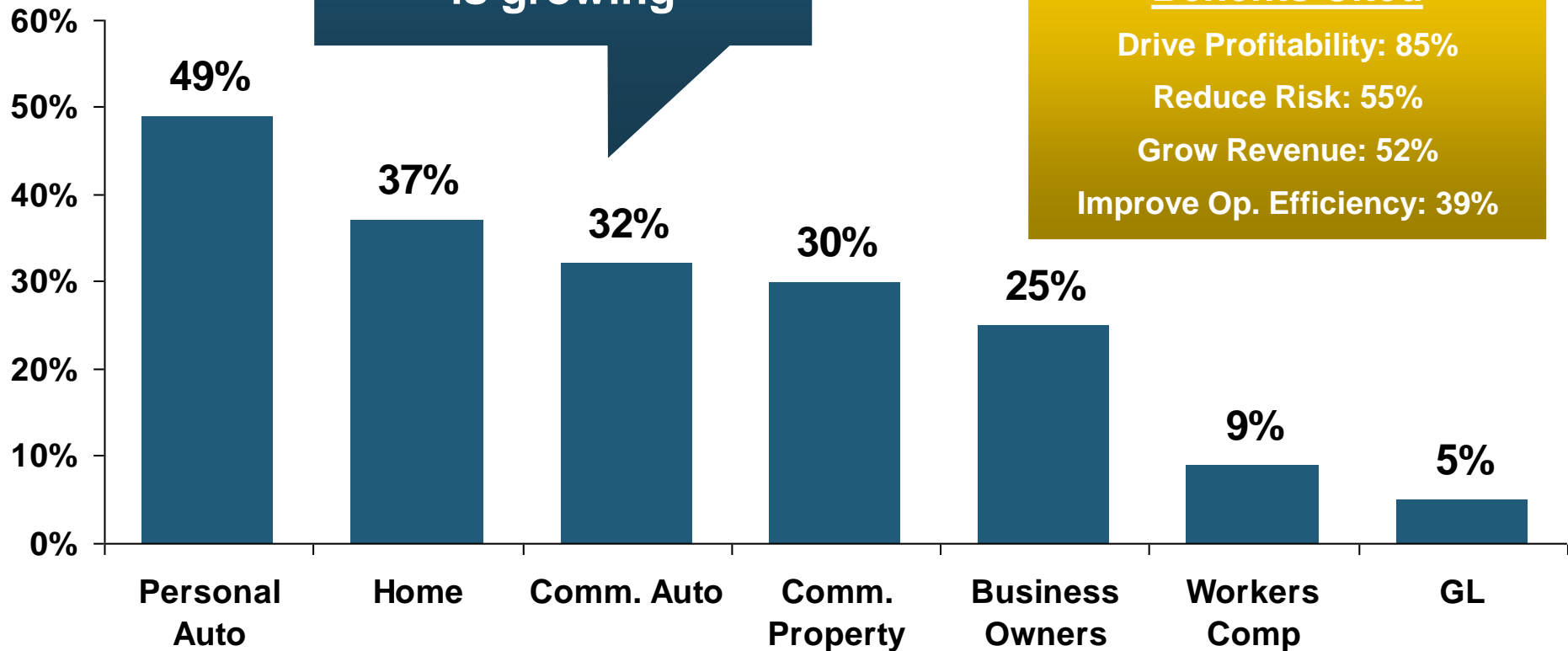
Benefits Cited

Drive Profitability: 85%

Reduce Risk: 55%

Grow Revenue: 52%

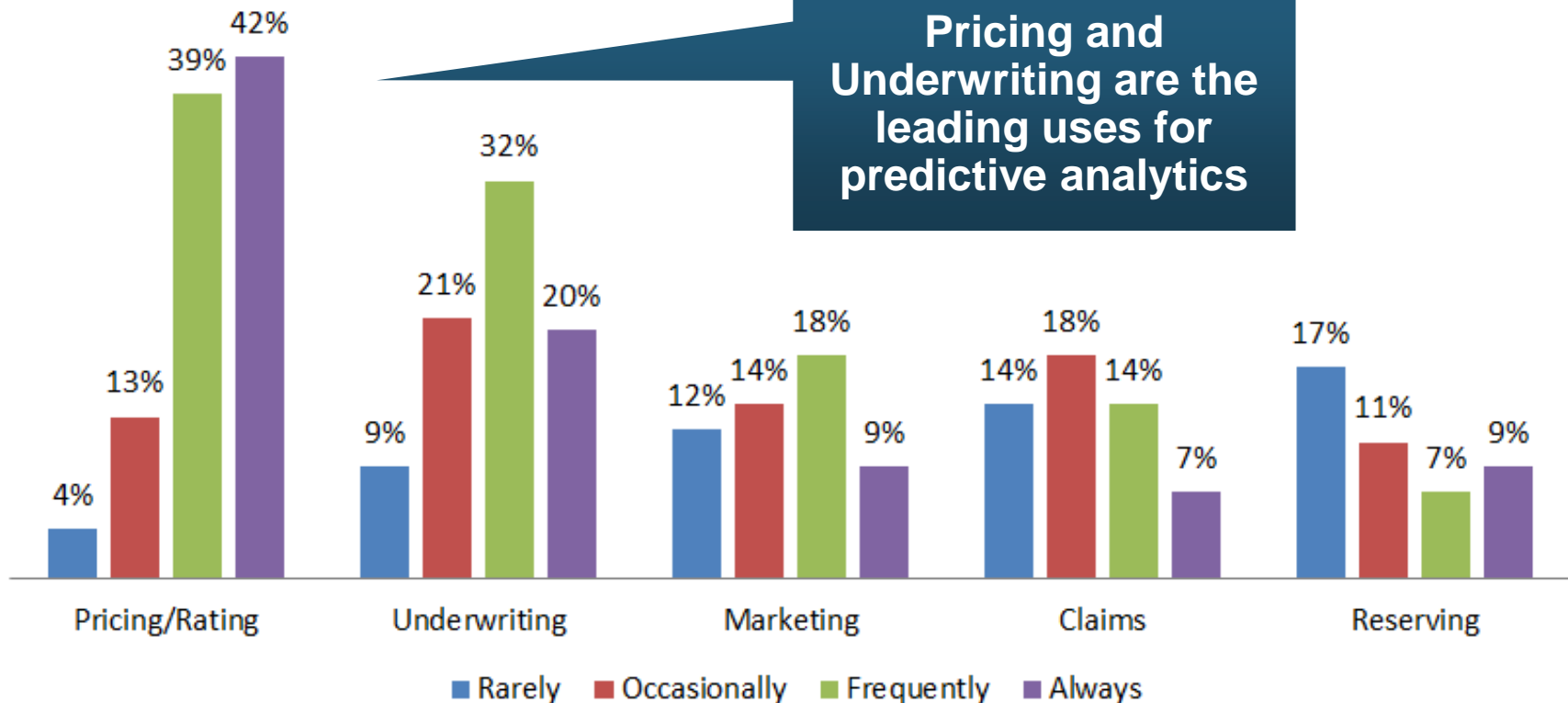
Improve Op. Efficiency: 39%



Uses of Predictive Analytics by Function

Uses of Predictive Modeling

Pricing and Underwriting are the leading uses for predictive analytics



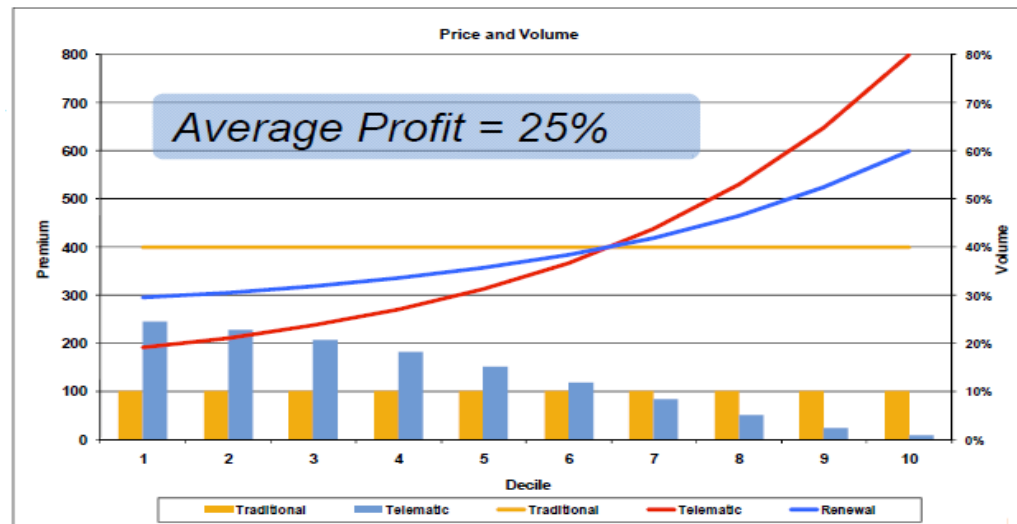
Source: Earnix/ISO September 2013 Survey

Usage-Based Insurance (UBI): Telematics

**UBI Is Catching On Among
Insurers and Consumers, But Is
It a Transient Technology?**

Driving Behavior Data Is Very Predictive

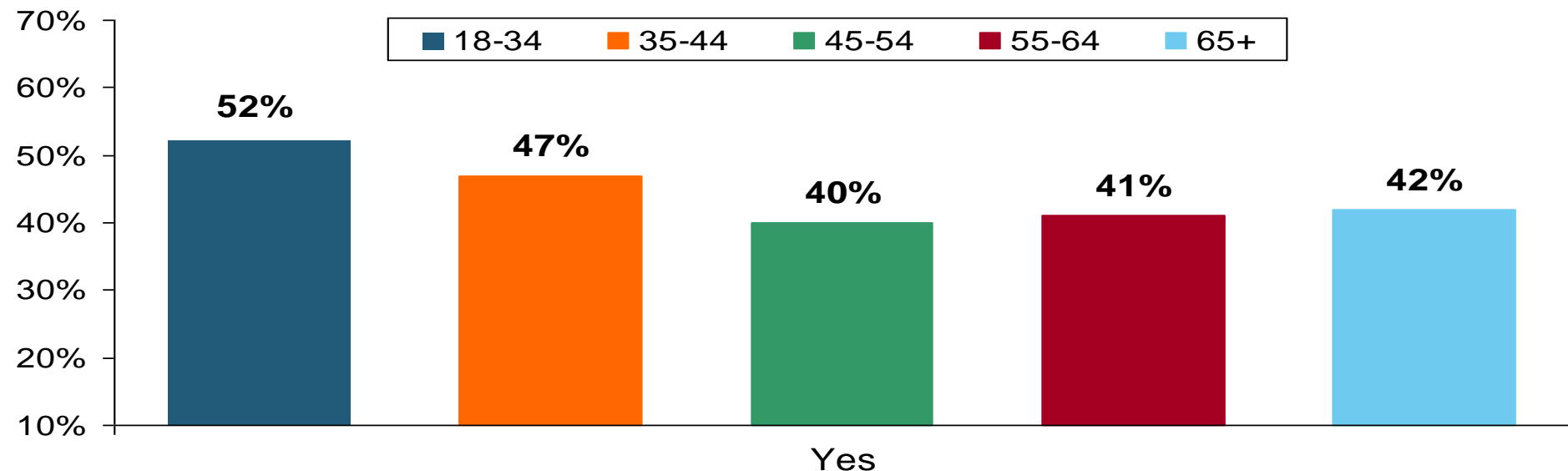
- Provides significant lift above current rating plan
 - ◆ Early programs had discounts of up to 61% and surcharges of 9%, but most companies are not giving such significant rate variation
 - ◆ Difference between indication and selection can help fund technology while still providing marketing effect
 - ◆ Must be matched with policy and claims data to develop predictive models and define lift



Smart implementation helps justify the technology cost

I.I.I. Poll: Telematics

Q. Would you be more likely to install a recording device on your car that allows your insurance company to monitor how many miles you drive, the time of day you drive and how often you make sudden stops if you could get an immediate discount on your auto insurance?¹



Support for telematics device is highest among youngest age group and declines among older people.

¹Asked of those who have auto insurance.



Technology and Insurance

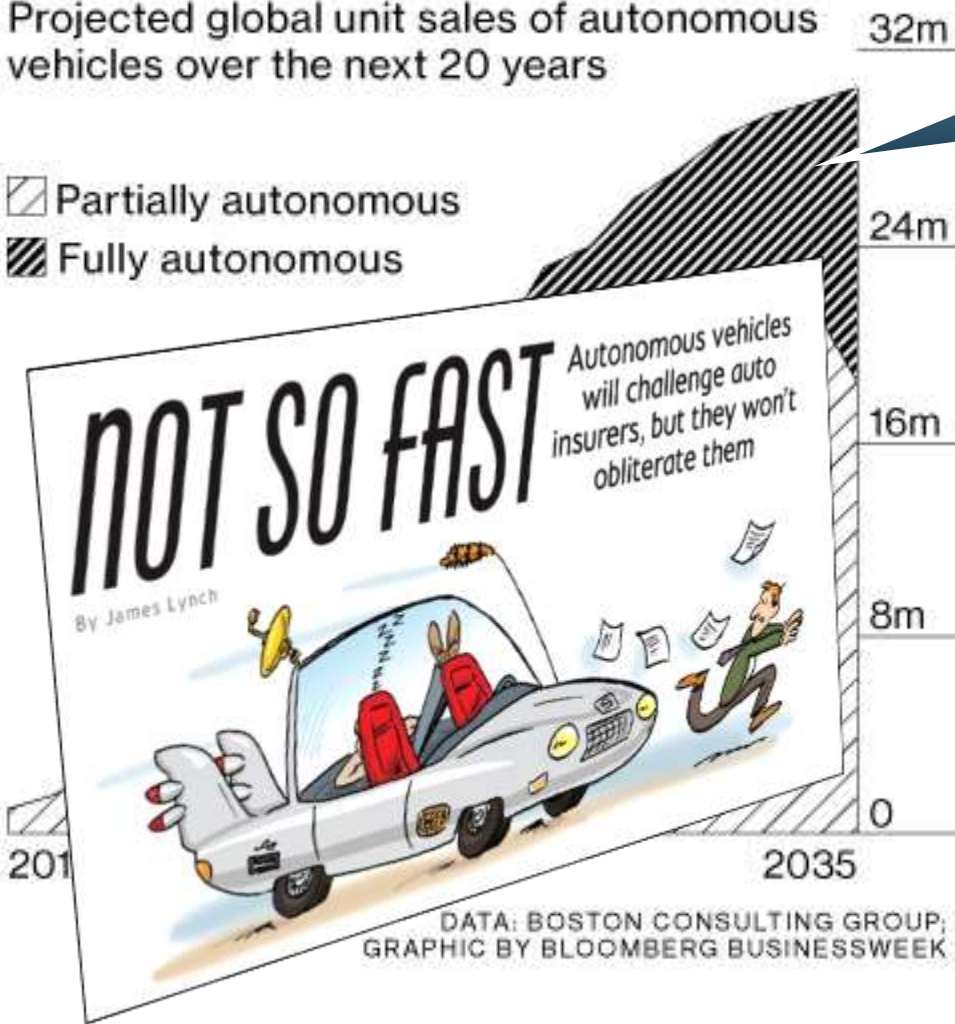
**Rapid Technological Innovations Are
Impacting Many Segments of the
P/C Insurance Industry**

Media is Obsessed with Driverless Vehicles: Often Predicting the Demise of Auto Insurance

Hands-Free

Projected global unit sales of autonomous vehicles over the next 20 years

- ▨ Partially autonomous
- ▩ Fully autonomous



By 2035, it is estimated that 25% of new vehicle sales could be fully autonomous models

Questions

- Are auto insurers monitoring these trends?
- How are they reacting?
- Will Google take over the industry?
- Will the number of auto insurers shrink?
- How will liability shift?

DATA: BOSTON CONSULTING GROUP; GRAPHIC BY BLOOMBERG BUSINESSWEEK

On-Demand/Sharing/Peer-to-Peer Economy Impacts Many Lines of Insurance

- The “On-Demand” Economy is or will impact many segments of the economy important to P/C insurers
 - ◆ Auto (personal and commercial)
 - ◆ Homeowners/Renters
 - ◆ Many Liability Coverages
 - ◆ Professional Liability
 - ◆ **Workers Comp**
- Many unanswered insurance questions
- Insurance solutions are increasingly available to fill the many insurance gaps that arise



U B E R



Labor on Demand: Huge Implications for the US Economy, Workers & Insurers

Will YOUR job be reduced to an app?



Send in the Drones: Potential Rapid Adoption in Industry; Media Loves It



- Drones or Unmanned Aerial Vehicle (UAV) technology is seeing rapid adoption rate in many industries, including insurance
- FAA granting Section 333 exemptions for commercial use and testing of UAS
- At least 5 insurers have received permission to test
- Wide variety of applications: claims, pre-event property inspections...
- Insurers partnering with construction industry to guide R&D and regulation of UAV use via *Property Drone Consortium*: www.propertydrone.org

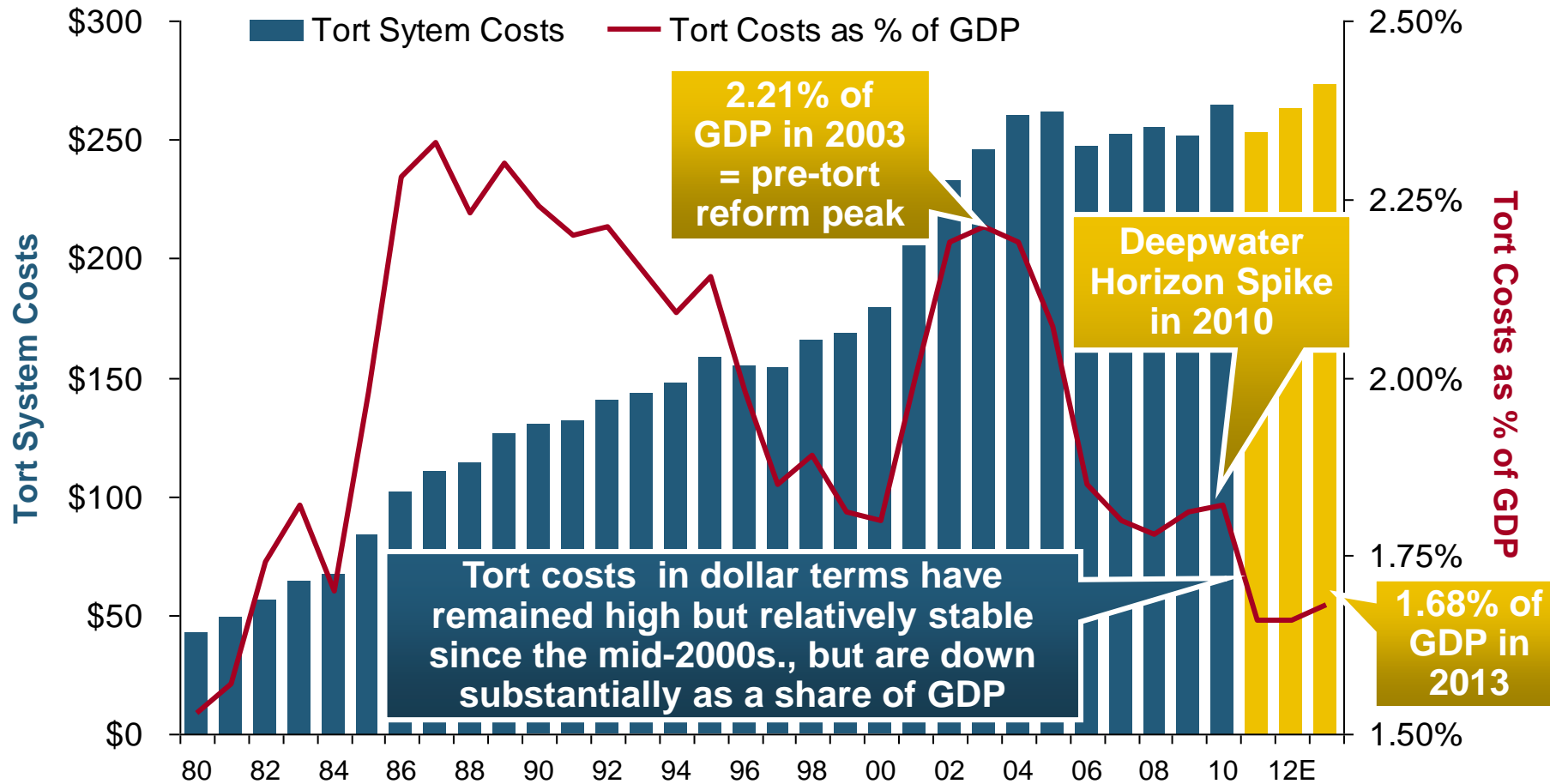


Shifting Legal Liability & Tort Environment

Will the Tort Pendulum Swing Against Insurers?

Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

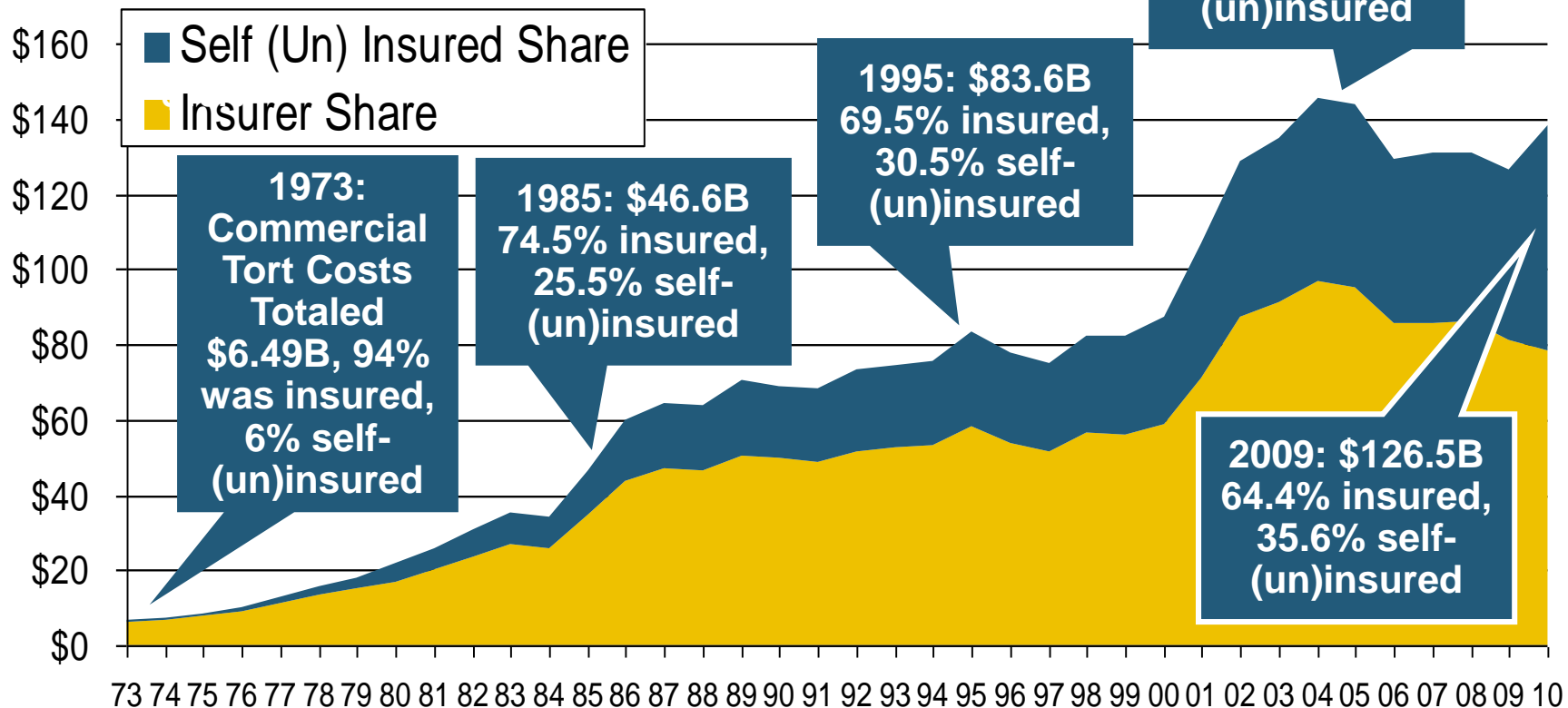
(\$ Billions)



Sources: Towers Watson, 2011 Update on US Tort Cost Trends, Appendix 1A

Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

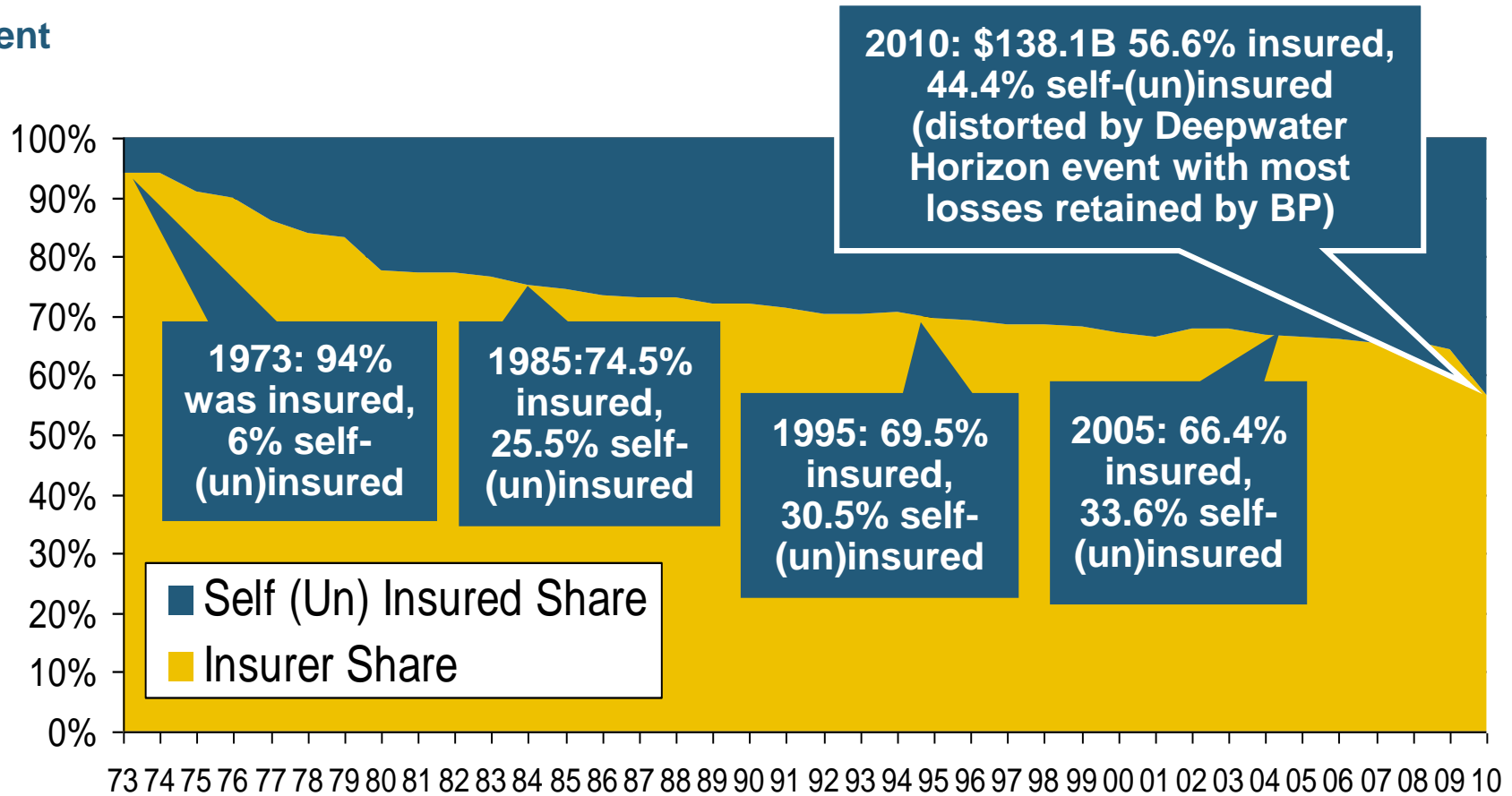
Billions of Dollars



Tort Costs and the Share Retained by Risks Both Grew Rapidly from the mid-1970s to mid-2000s, When Tort Costs Began to Fall But Self-Insurance Shares Continued to Rise

Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

Percent



The Share of Tort Costs Retained by Risks Has Been Steadily Increasing for Nearly 40 Years. This Trend Contributes Has Left Insurers With Less Control Over Pricing.

Business Leaders Ranking of Liability Systems in 2012

Best States

1. Delaware
2. Nebraska
3. Wyoming
4. Minnesota
5. Kansas
6. Idaho
7. Virginia
8. North Dakota
9. Utah
10. Iowa

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

Worst States

41. Florida
42. Oklahoma
43. Alabama
44. New Mexico
45. Montana
46. Illinois
47. California
48. Mississippi
49. Louisiana
50. West Virginia

Newly Notorious

- Oklahoma

Rising Above

- Arkansas

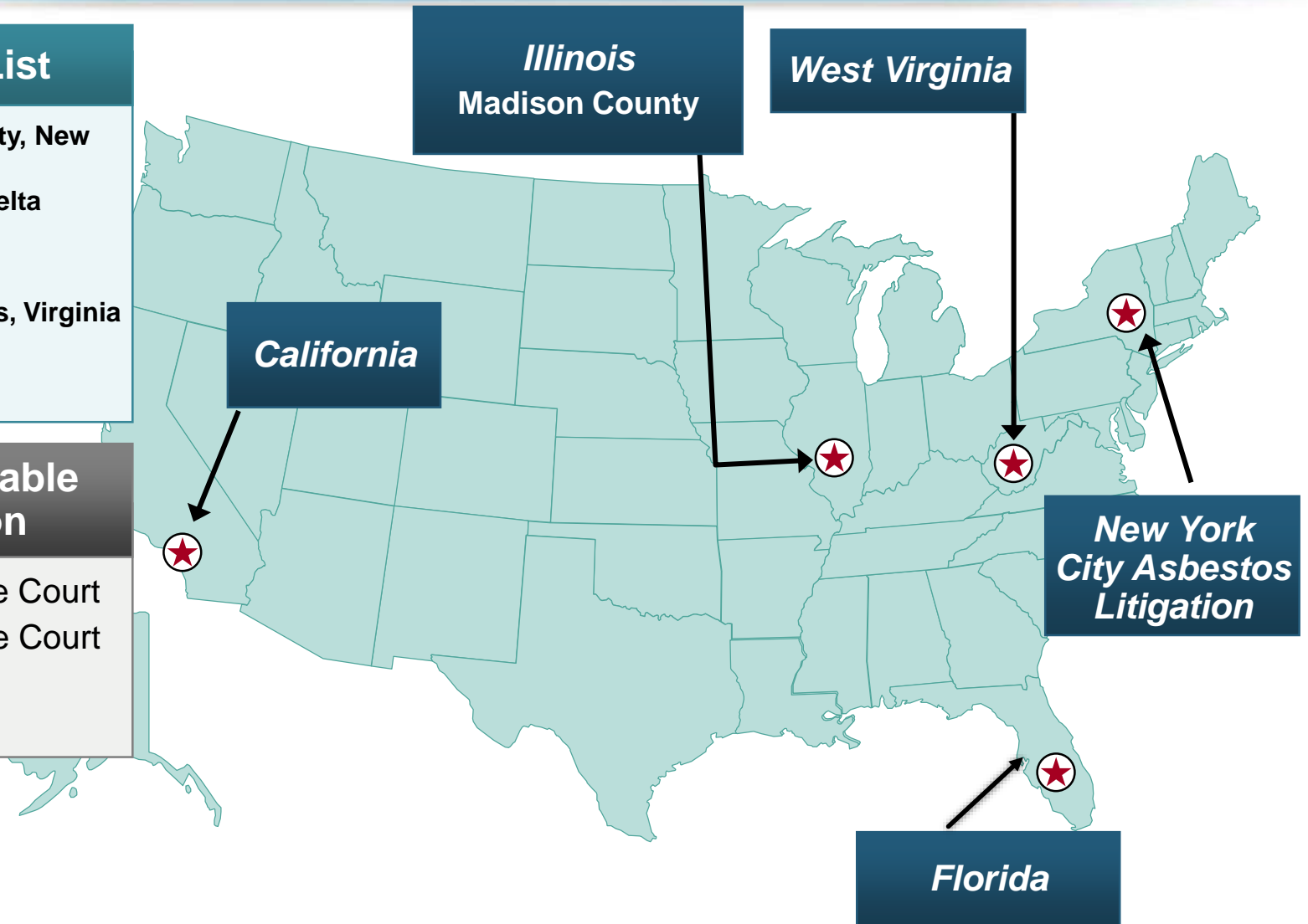
The Nation's Judicial Hellholes: 2014/2015

Watch List

- Atlantic County, New Jersey
- Mississippi Delta
- Montana
- Nevada
- Newport News, Virginia
- Philadelphia, Pennsylvania

Dishonorable Mention

- AL Supreme Court
- PA Supreme Court



Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

Twitter: twitter.com/bob_hartwig